

# SUBCOMMITTEE NO. 1 on Education



**Subcommittee No. 1**  
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## GOVERNOR’S LOCAL CONTROL FUNDING FORMULA (LCFF) – BACKGROUND AND QUESTIONS ON SELECTED ISSUES FOR FURTHER DISCUSSION

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## **GOVERNOR'S LOCAL CONTROL FUNDING FORMULA (LCFF) -- SELECTED ISSUES FOR FURTHER DISCUSSION**

### **ISSUE 1. LCFF Funding Estimates**

The Department of Finance (DOF) developed LCFF modeling estimates for school districts and charter schools, which were posted on their website in February. This data is intended to estimate the fiscal impact of the Governor's LCFF proposal on school districts and charter schools beginning in 2013-14 through 2019-20 when full implementation is achieved and targets are met.

The DOF website includes a policy brief which summarizes the LCFF modeling estimates as follows:

- No school district or charter school will receive less than it did in 2012-13. The vast majority of school districts and charter schools (approximately 1,700) will receive moderate to significant funding increases with the implementation of the Local Control Funding Formula (Formula). On a statewide basis, funding levels are projected to grow by approximately \$2,700 per-student over the first five years of Formula implementation.
- The Formula will restore the significant funding reductions (known as the deficit factor) made to general purpose school funding (revenue limit) over the last five years. When fully implemented, the Formula will ensure all districts receive a general purpose base grant (basic per-student funding level) that is equivalent to the statewide average from 2007-08. Districts will receive supplemental funding above this amount.
- Districts will receive substantial additional funding based on the number of English learners, students eligible for free and reduced-priced meals, and foster youth they serve. These students account for more than half of current K-12 enrollment. This additional funding, known as supplemental funding and concentration grants, will assist schools in meeting the unique educational needs of these students.
- \$7.4 billion in currently deferred payments (shifted from one fiscal year to the next) will be repaid during the transition to the Formula, providing schools with additional cash resources (beyond formula growth) during each year of the Formula's implementation. These funds are not reflected in the district and charter school estimates.
- An additional \$15.5 billion in funding, plus annual cost-of-living adjustments, will be provided to school districts and charter schools to implement the Formula over the next several years.
- Approximately 230 school districts and charter schools are estimated to receive little or no additional funding as a result of the Formula. Almost all of those districts and charter schools are basic aid, where local property tax revenues alone are more than sufficient to fund their funding formula entitlement. Others receive necessary small school funding or have unique funding issues that result in them having current funding levels well above what all other schools are receiving. For example:

- Alpine County Unified School District is a basic aid district that has a current estimated average funding level of approximately \$20,000 per pupil.
  - Laguna Beach Unified School District is a basic aid district that has a current estimated average funding level of approximately \$13,000 per pupil.
  - Mendocino Unified School District is a basic aid district that has a current estimated average funding level of approximately \$14,000 per pupil.
- No basic aid district will receive less in state support than it does today. Basic aid districts will continue to retain local property tax revenues and continue to see their funding rise as property tax revenues increase. In addition, necessary small school funding will continue to be provided to geographically isolated schools under the Formula, and will grow at the same rate as Formula funding does.

At the request of the Assembly Budget Subcommittee #2, the Department of Finance developed funding estimates comparing the Governor’s LCFF funding formula to current law funding reflecting Assembly assumptions. This data set was provided to the Assembly Budget Subcommittee for their April 9<sup>th</sup> hearing. The data set is available on the Assembly Budget website.

**Department of Education Funding Formula Projections.** The California Department of Education (CDE) has also developed projections of local agency funding under the Governor’s LCFF proposal as compared to funding levels under current law. These projections – released in late March – are available on the CDE website. In developing these funding projections, CDE made the following assumptions:

- Current law projections are based on a restoration of deficits including Control Section 12.42 cuts, plus a 2013-14 COLA. The total amount of funding needed to restore funding and provide a COLA for 2013-14 is less than the total amount of the target amounts provided under the LCFF, so around \$1,200 per average daily attendance (ADA) was added to each entity’s funding level so that totals match LCFF totals statewide.
- County office funds transfers and associated ADA are shown at the district level, to provide a basis for comparison with the LCFF proposal.
- The projections are of state entitlements and do not account for property taxes.

**Suggested Questions:**

1. CDE. How would CDE summarize the results of their projections for school districts and charter schools?
2. DOF. What’s the Department of Finance’s assessment of the CDE projections comparing the LCFF to current law?
3. DOF. Do the CDE projections make the same assumptions about COLA over seven years of LCFF implementation? If not, how does this affect the comparisons?
4. DOF. Do the CDE projections make the same assumptions about excess property tax for Basic Aid districts? If not, what affect does this have on the comparisons?

## ISSUE 2. LCFF Base Grants & Adjustments

### Grade Spans Added by Governor’s Latest Proposal Reflect Cost Variances for Elementary, Middle, and High 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

**Base Grant Adjustments.** The Governor also proposes two special grade span adjustments, in addition to base grants for grades K-3 and grades 9-12, as follows:

- **Class Size Reduction Adjustment.** The Governor proposes an additional **11.2 percent** class size reduction adjustment for grades K-3. School 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.
- **Career Technical Education (CTE) Adjustment.** The Governor proposes an additional **2.8 percent** career technical education adjustment for grades 9-12. The grade 9-12 base grant is \$7,895 with the adjustment and \$7,680 without the adjustment. The Governor does not provide conditions or other details for qualifying for this CTC grade span adjustment. According to the Department of Finance (DOF) the 2.18 percent adjustment simply recognizes funding as a career technical education adjustment and gives districts flexibility on how to spend the funding. According to DOF, 2.18 percent equals about \$388 million, and is intended to roughly approximate the \$410 million currently appropriated for career technical education categorical programs (most of which is currently subject to categorical flexibility.)

**LAO Comments on Grade-Specific Target Base Grants.** Per the LAO, 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.

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.

**Governor’s Proposal to Include Existing Career Technical Education Programs in LCFF.**

The Governor proposes to roll three categorical programs into the LCFF. The largest of these programs is Regional Occupational Centers/Programs, which since 2007-08 has been subject to both categorical reductions and flexibility provisions which allow Local Educational Agencies (LEAs) to use funding for any educational purpose. Under current law, these reductions and flexibility continue through 2014-15.

<b>Programs</b>	<b>2102-13 Appropriation</b>
	<i>Dollars in Millions</i>
Regional Occupation Centers/Programs	\$385
Partnership Academies	21
Agricultural Vocational Education	4
<b>TOTAL</b>	<b>\$410</b>

The two, smaller remaining programs – Partnership Academies and Agricultural Vocational Education – have been subject to categorical reduction since 2007-08, but have not been subject to categorical flexibility.

**Regional Occupational Centers/Programs (ROC/Ps).** The Department of Education has provided the following information about ROC/Ps:

LEAs for purposes of the ROC/Ps are defined as a single school district, county office of education, or a Joint Powers Agreement (JPA) of two or more school districts. The State Board of Education has given waivers to some ROC/Ps allowing them to form outside of the code section description (small single district ROC/Ps).

There are a total of 74 ROC/Ps that currently receive funding (42 county boards, 26 JPAs, and 6 single districts) including those ROC/Ps that have flexed their funding or have disbanded their ROC/P. These ROC/Ps constitute about 40 percent of statewide enrollment in career technical education programs. To date, and under the flexibility provisions of the past four years, more than 5 ROC/Ps have flexed their dollars or have dismantled their programs.

ROC/Ps were funded at \$525,000,000 in 2007-08. Due to the budget Control Section 12.42 reductions, funding was reduced to \$385,000,000 in 2008-09. In addition, the ROC/Ps were subject to categorical flexibility provisions allowing LEAs to use funding for any educational purpose. Under current law, these funding reductions and flexibility provisions will continue another two years – through 2014-15. The Governor proposes to roll \$385,000,000 from ROC/Ps into the LCFF in 2013-14.

State ROC/P funding is provided through an “apportionment,” based on previously calculated Average Daily Attendance (ADA). ROC/P funding is not an entitlement/grant; rather LEAs receive a per pupil funding rate for ROC/Ps.

Historically, these per pupil funding rates were established based upon the revenue limit of the districts that the LEA served. Funding levels were originally established in the early 1970s. As a result, there is an uneven distribution of funds from LEA to LEA on a per pupil basis.

Historically, the Department of Education provided funding based on a capped amount of ADA to each ROCP. Any growth was allocated in an annual budget allocation from CDE and the ROC/Ps that generated excess ADA above their cap were given a piece of the growth dollars, but it was not a significant amount and could not be counted on in their projected budget planning. The ROCPs who did not generate their capped ADA were not paid for those hours and the funds were redistributed to the ROCPs that exceeded their cap for a given year. This redistribution was not permanent because the original ROCP could reclaim the funds if they generated the ADA the second year out. The funds were treated as one time money.

**LAO Comments on Grade Span Adjustments.** The LAO believes the Governor’s proposal adds unnecessary complexity by including the separate K-3 CSR and high school CTE supplements. Per the LAO, 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 LAO believes 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.

**Suggested Questions:**

1. What is the goal of the high school grade span adjustment for career technical education? The Governor appears to be calling out career technical education to special consideration, while also rolling other categorical programs such as ROC/Ps into the Local Control Funding Formula?
2. The CTE adjustment of grades 9-12 is 2.18 percent? What is the per student dollar value of this adjustment? How was the amount derived?
3. The Governor’s base grade span rate for grades 9-12 appears to provide an amount similar to the current high school funding rate, but provides about a \$1,000 more per student for unified districts. Is any additional funding for unified school districts intended to provide additional funding for career technical education?
4. Would it be better to roll the career technical education adjustment into LCFF per the LAO adjustment? Or should the adjustments be clarified and strengthened?

5. Could the CTE grade span adjustment be used to incentivize stage standards or goals for high quality career technical education such as course access and sequence completion?
6. Could existing career technical education programs – most notably ROC/Ps -- be rolled into the CTE grade span adjustment to protect the state's investments in career technical education?
7. What is the impact of rolling ROC/P programs into the Local Control Funding Formula? How is the Governor's current proposal different than existing categorical flexibility in effect for ROC/P programs?
8. Under the Governor's proposal, is it likely that school districts would continue ROC/P programs for if JPAs and county offices no longer received direct funding for these programs?
9. The Governor requires Local Accountability Plans to increase the percentage of students who have completed college preparation coursework; and students who have completed career technical education programs. How will career technical education programs be defined? How are career technical education outcomes currently measured for purposes of our state's accountability systems?
10. What is the goal of the K-3 class size reduction supplement? Is it better to roll that supplement into the LCFF? Or should it be clarified and strengthened? What is the value of that supplement?

### **ISSUE 3. Supplemental Funding.**

**Background on Economic Impact Aid Program.** The state currently has a program that serves English learner (EL) and low-income (LI) pupils – the Economic Impact Aid (EIA) program.

The Economic Impact Aid (EIA) program is a state categorical program that provides supplemental services to K-12 pupils designated as English learner (ELs) and/or low income (LI). This program originates from the Chacon-Moscone Bilingual-Bicultural Education Act of 1976 (Act), which was established to provide specialized support services to EL pupils. The Act was later combined with other programs that provided funding to ensure educationally disadvantaged pupils (i.e., LI pupils) also receive support services.

EIA program funding is required to be used in the following manner:

- LI pupils: to provide supplemental support programs and services/activities to assist LI pupils in achieving proficiency in the state academic content standards.
- EL pupils: to provide supplemental support programs and services/activities to assist ELs in achieving proficiency in English and improve their overall academic achievement.

In meeting these requirements, school districts must determine whether they will use their EIA funding all for supplemental services for EL pupils or LI pupils, or a combination of the two. Statute requires districts to provide "programs appropriate to the educational needs of [EL pupils]." According to the Department of Education, about 60 percent of school districts statewide use EIA funds for EL students only.

Current law also provides the State Department of Education (SDE) with the authority to monitor this program.

EIA program funding must be used to provide additional services only to EL and LI pupils in addition to "base" services provided to every student, regardless if they are EL or LI.

**Funding.** The 2012-13 Budget Act allocated **\$944.4 million** General Fund (Proposition 98) for the EIA program. According to the Legislative Analyst's Office, school districts receive an average of \$330 per pupil. Charter schools also receive EIA funding. The program was not subject to the 20 percent categorical program reduction pursuant to Control Section 12.42 in the annual budget act nor was program funding made flexible.

School Districts receive funding based on the total number of ELs and LI pupils enrolled. The number of EL pupils is determined through the home language survey, which is distributed to parents each year, and results from the California English Language Development Test, which measures a pupil's English proficiency. The number of LI pupils is based on federal Title I calculations (poor/needy pupils).<sup>1</sup>

Districts receive two EIA apportionments for pupils who are both EL and LI – an average of \$700 per student who meets both criteria. In addition, districts whose enrollment is over 50

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<sup>1</sup>Title I calculations are not based on individual student-level data; instead, they are based on census data.

percent EL or LI pupils receive a supplemental "concentration" grant. The concentration grant provides one-half (an average of \$175) per pupil funding for every EL or LI pupil over the 50 percent threshold. If the pupil is designated as both EL and LI, the allocation is \$330 per pupil.

According to the LAO, 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 Governors' new formula rates would range from **\$2,220 to \$2,688** per EL/LI student, depending upon the grade level.

The LAO has developed the following figure that compares funding provisions for LI and EL students for the Governor's LCFF proposal and under current law. This figure is included in the recent LAO report entitled -- *The 2013-14 Budget: Restructuring the K-12 Funding System*:

### 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.

**LAO Comments on Supplemental Rates.** In an attempt to assess the appropriateness of the Governor’s proposed EL/LI supplement, the LAO conducted a review of “weights” used in other states and suggested by relevant academic literature. This research found that the Governor’s proposed 35 percent supplement is somewhat high but falls within the range of practices used and mentioned elsewhere. 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.

As a way of background, the LAO provides the following summary about state practices and research regarding funding for EL and LI students from its report -- *The 2013-14 Budget: Restructuring the K-12 Funding System*:

### **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.

**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.

#### **Suggested Questions:**

1. How do base and supplemental funding factors interact within the LCFF? What is the appropriate balance of base funding and supplemental funding – including any concentration factors?

2. Could supplemental concentration factors be more narrowly targeted or eliminated in favor of larger base supplements for all students and supplements for educationally disadvantaged students?
3. What's the rationale for using "unduplicated" student counts for low-income students, English learner students, and students residing in foster care, rather than duplicated counts? What alternatives exist?
4. What is the rationale for limiting English learner supplemental funding to five years? What alternatives exist?
5. What assurances can be built into the Governor's plan to make sure supplemental funding is used to benefit the students who generate the funding, e.g. low-income students, English learner students, and students residing in foster care? For example, the LAO recommends adding supplement, not supplant language, for example, which seems to be the standard of practice for existing categorical programs such as the EIA program?
6. Are there some provisions of current statute authorizing the Economic Impact Aid program that could be continued and expanded within the Governor's accountability framework? For example, could the school-site parent councils be continued?
7. What other options exist to ensure that districts are using supplemental funds to benefit disadvantaged students under the Governor's proposal?

#### **ISSUE 4. Categorical “Add-Ons”.**

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 Targeted Instructional Improvement Grant (TIIG) and Home-To-School (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 rather than need. Generally, funding is limited to districts that receive funding prohibiting or limiting access for districts that did not already participate. The Governor’s plan would lock in these amounts for districts and lock out funding for other districts based upon any reasonable measure of need.

The following background information is provided by the California Department of Education about the TIIG and HTS programs.

##### **A. Targeted Instructional Improvement Grant (TIIG) Program**

**Background:** Targeted Instructional Improvement Grant (TIIG) was originally provided to LEAs to reimburse either court-ordered or voluntary desegregation activities. The amounts eligible for reimbursement were originally determined by the State Controller. LEAs that participated in a court-ordered or voluntary desegregation program received TIIG funding, and are listed in the 2000-01 Budget Act. Of the funds provided, 78.04 percent was for court-ordered desegregation activities and 21.96 percent was for voluntary desegregation activities.

The Supplemental Grants program was established to equalize categorical aid for LEAs that received disproportionately lower amounts of categorical funding, over a three-year period beginning in 1989-90. Districts were given the opportunity to designate which programs – their revenue limit or any of 27 categorical programs – would receive the supplemental funding. After the legislation sunset, the funding continued and LEAs were given additional re-designation opportunities.

TIIG and Supplemental Grant funding were consolidated as the Targeted Instructional Improvement Block Grant (TIIBG) by AB 825 (Chapter 871, Statutes of 2004). An LEA that received funding in 2003–04 for either TIIG or Supplemental Grants received TIIBG. Each LEA’s entitlement for TIIBG is based on its proportionate share of funding for TIIG and the Supplemental Grants relative to the statewide total. Of the funds provided in TIIBG, 81.9 percent was attributed to TIIG, and 18.03 percent was attributed to Supplemental Grants.

According to CDE, only two LEAs (Los Angeles Unified School District and San Diego Unified School District) continue to identify TIIBG resources for their transportation activities attributed to desegregation.

**Funding Levels & Allocations.** The 2012-13 budget appropriated **\$855.1 million** in Proposition 98 funding for the TIIG program. This amount reflects the Control Section 12.42 reduction of nearly 20 percent. Without this reduction, TIIG funding would total \$1.066 billion in 2012-13.

TIIG is among the nearly 40 categorical programs which have been made flexible since 2008-09, meaning that funding can be used by districts for any educational purpose. In addition, TIIG has also been subject to Control Section 12.42 reductions since that time.

Since 2008-09, school districts have been locked into 2007-08 funding proportions for TIIG. This funding distribution will continue another two years - through 2014-15. Prior to 2008-09, the TIIG program was eligible for annual growth and COLA adjustments.

TIIG funding is allocated to a total of **543 school districts** in 2012-13, which is about half of the state's school districts. The table below displays funding allocations for the ten districts earning more than \$5 million annually from the TIIG program in 2012-13. These ten districts account for **77 percent** of state TIIG funds. However, as indicated by the table, most TIIG funding is consolidated within a few districts.

**Targeted Instructional Improvement Grant Funding, 2012-13**

	<b>TIIG Funding for Highest Funded Districts</b>	<b>County</b>	<b>K-12 Pupil ADA</b>	<b>Percent Free/Reduced Price Lunch Pupils</b>	<b>Percent English Learner Pupils</b>	<b>TIIG Funding</b>	<b>Per ADA TIIG Funding</b>
1	Los Angeles Unified	Los Angeles	560,732	70.91	28.24	460,568,614	821.4
2	San Diego Unified	San Diego	110,412	58.67	27.27	64,462,998	583.8
3	San Francisco Unified	San Francisco	49,068	56.84	30.25	38,108,038	776.6
4	San Jose Unified	Santa Clara	30,693	44.07	23.21	30,727,295	<b>1,001.0</b>
5	San Bernardino City Unified	San Bernardino	48,147	<b>86.57</b>	29.83	16,848,534	350.0
6	Oakland Unified	Alameda	36,375	62.29	29.46	10,094,682	277.5
7	East Side Union High	Santa Clara	23,162	41.92	16.48	7,967,457	344.0
8	Twin Rivers Unified	Sacramento	23,847	<b>82.21</b>	24.4	7,695,082	322.7
9	Bakersfield City	Kern	26,027	<b>84.21</b>	28.92	6,647,597	255.4
10	Stockton Unified	San Joaquin	33,218	<b>81.58</b>	28.35	5,678,159	<b>170.9</b>
11	Redwood City Elementary	San Mateo	8,746	58.13	45.45	5,114,330	584.8
	<b>Total, Highest Funded Districts</b>					<b>653,912,786 (76.5 %)</b>	
	Total Funding, All Districts					<b>855,131,000</b>	

Source: California Department of Education.

LAUSD alone accounts for **54 percent** of TIIG funding, although it accounts for only 9.4 percent of statewide ADA. The top four unified schools districts – Los Angeles, San Diego Unified, Long Beach and Fresno – account for **63 percent** of state TIIG funding in 2012-13.

Funding among the top earning districts varies significantly – from about **\$171 to \$1,001** per student average daily attendance (ADA) among districts. It is interesting to note among the highest earning districts -- those districts with the highest poverty rates (over 75 percent) -- did not share the highest per ADA funding rates.

The table below displays TIIG funding appropriations for the ten largest school districts in the state in 2012-13. The funding variation for these districts is also quite significant. Three school districts – Fresno, Santa Ana, and Capistrano -- earn less than \$75 per student ADA. Notably, Elk Grove earns zero funding. Two unified districts with high poverty rates – Fresno and Santa Ana -- are among these low earners.

**Targeted Instructional Improvement Grant Funding, 2012-13**

	<b>TIIG Funding for Ten Largest School Districts</b>	<b>County</b>	<b>K-12 Pupil ADA</b>	<b>Percent Free/Reduced Price Lunch Pupils</b>	<b>Percent English Learner Pupils</b>	<b>TIIG Funding</b>	<b>Per ADA TIIG Funding</b>
1	Los Angeles Unified	Los Angeles	560,732	70.91	28.24	460,568,614	821.4
2	San Diego Unified	San Diego	110,412	58.67	27.27	64,462,998	583.8
3	Long Beach Unified	Los Angeles	80,057	68.10	22.32	9,645,922	120.5
4	Fresno Unified	Fresno	66,573	<b>81.05</b>	23.62	4,227,867	63.5
5	Elk Grove Unified	Sacramento	58,645	63.51	16.31	0	0
6	Santa Ana Unified	Orange	51,738	<b>77.78</b>	53.12	461,341	8.9
7	Corona-Norco Unified	Riverside	50,759	42.57	13.20	1,449,426	29.0
8	San Francisco Unified	San Francisco	49,068	56.84	30.25	38,096,678	776.6
9	Capistrano Unified	Orange	49,382	23.02	10.55	2,060,505	41.7
10	San Bernardino City Unified	San Bernardino	48,147	<b>86.57</b>	29.83	16,843,511	350.0
	<b>Subtotal, Top Ten Districts</b>					597,816,862	
	Top Four					63 %	
	TOTAL Funding, All Districts					855,131,000	

Source: California Department of Education.

**LAO Comments:** 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.

## **B. Home-to-School Transportation Program**

**Pupil Transportation.** The Home-to-School (HTS) transportation program was originally a reimbursement-based program. Local Educational Agencies (LEAs) submitted transportation claims for the prior year and were reimbursed for those costs, limited to the funds available in the annual budget act.

Beginning in the 1980s, a base funding amount was established for participating LEAs, and funding was provided to eligible LEAs based on their prior year allocations or approved prior year costs, whichever was less. An LEA could not claim more funding than they received in the prior year, and had to document reimbursable costs of at least the same amount in each subsequent year, with adjustments for growth and/or COLA as provided by the budget act.

- Since the 1992–93 fiscal year, HTS funding has been split between home-to-school and special education transportation. (Special education transportation is defined as transportation for severely disabled and orthopedically impaired (SD/OI) students.) All subsequent allocations of HTS funding have been based on the amount eligible districts received in 1992-93.
- HTS funding has not been one of the “flexed” categoricals, but has been subject to the reductions allocated pursuant to Control Section 12.42. An LEA must still spend its entire entitlement amount, prior to the reduction, to continue receiving that same level of funding.
- Although a LEA’s entitlement cannot be increased due to higher expenditures, its entitlement will be reduced if its expenditures do not meet or exceed its prior year entitlement (E.C. 41851(c)). If an LEA does reduce its expenditures, and thus receives a reduction to its entitlement, its entitlement will not go back up, even if the district’s expenditures increase.
- Only those LEAs who have continuously participated in the HTS transportation program since the base funding amounts were established in the 1980s are eligible for HTS funding.

**Funding Levels and Allocations.** The 2012-13 Budget Act appropriated a total of \$496 million General Fund (Proposition 98) for school transportation programs, including:

- \$491 million is provided for Pupil Transportation, which includes both allocations for home-to-school transportation and allocations for pupils with disabilities, specifically “severely disabled and orthopedically impaired” pupils.
- \$5 million is provided for Small Bus Replacement. Only LEAs with average daily attendance of less than 2,501 are eligible to apply. According to CDE, 130-170 applications for funding are received each year and CDE can only fund approximately 32 LEAs.

According to CDE, 915 LEAs (school districts, county offices and joint powers agencies) reported transportation data in 2011-12. (Charter schools are not eligible for HTS transportation funding.) Of this total, 864 LEAs provided home-to-school transportation services at a cost of **\$728.6 million**, and 453 LEAs provided severely disabled/orthopedically impaired transportation

at a cost of **\$579.7 million**. These districts use a mix of HTS funding and general purpose funding to cover their transportation costs. Clearly, HTS transportation expenditures statewide exceed the **\$491 million** appropriated for these programs.

The following table shows some of the largest apportionments under the HTS program and compares funding as it equates to per student ADA. As mentioned previously, program funding is based upon historical funding levels, not on specific indicators of transportation need. It is interesting to note the differences in per ADA funding for LEAs receiving the largest amount of HTS transportation funding statewide.

<b>LEAs with Highest HTS Transportation Funding, 2011-12 Expenditure Data</b>					
<b>LEA</b>	<b>HTST - non SD/OI Apportionment (after CS 12.42 reduction)</b>	<b>HTST - SD/OI Apportionment (after CS 12.42 reduction)</b>	<b>Total HTST Apportionment</b>	<b>ADA</b>	<b>Per ADA Expenditures</b>
Los Angeles Unified	36,399,049	41,188,780	77,587,829	560,732	138.4
San Diego Unified	2,476,042	7,083,414	9,559,456	110,412	86.6
Long Beach Unified	4,325,551	704,425	5,029,976	80,057	62.8
Oakland Unified	2,620,655	3,104,307	5,724,962	36,375	157.4
San Juan Unified	2,601,804	2,628,977	5,230,781	39,070	133.9
Stockton Unified	3,481,721	975,632	4,457,353	33,218	134.2
San Francisco COE	761,809	3,644,095	4,405,904	49,068	89.8*
Fresno Unified	3,299,334	1,102,223	4,401,557	66,573	66.1
Lodi Unified	3,064,998	1,131,632	4,196,630	27,361	153.4
Sacramento City Unified	1,174,015	2,941,442	4,115,457	41,589	98.9
San Bernardino City Unified	742,885	2,911,122	3,654,007	48,147	75.9
Pasadena Unified	3,134,794	0	3,134,794	17,852	175.6-
West County Transportation JPA	2,237,348	926,087	3,163,435	NA	NA
Antelope Valley Schools Transportation Agency	1,679,962	1,739,016	3,418,978	NA	NA
Garden Grove Unified	2,172,580	1,158,244	3,330,824	46,770	71.2

Source: California Department of Education.

\*This does not include HTS transportation funding for San Francisco Unified School District.

The table below presents information on apportionments and expenditures for four school districts that receive similar amounts of funding but have very different expenditures.

<b>LEAs with Highest HTS Transportation Funding, 2011-12 Expenditure Data</b>					
<b>LEA</b>	<b>HTST - non SD/OI Apportionment (after CS 12.42 reduction)</b>	<b>HTST - SD/OI Apportionment (after CS 12.42 reduction)</b>	<b>Total HTST Apportionment</b>	<b>Total Expenditures</b>	<b>Difference Between Apportionment and Expenditures</b>
Fresno Unified	3,299,334	1,102,223	4,401,557	13,639,713	-9,238,156
Stockton Unified	3,481,721	975,632	4,457,353	9,255,895	-4,798,542
Sacramento City Unified	1,174,015	2,941,442	4,115,457	13,867,749	-9,752,292
Lodi Unified	3,064,998	1,131,632	4,196,630	5,896,465	-1,699,835

### **Suggested Questions for Categorical Add-Ons:**

1. DOF. What's the purpose of establishing the TIIG and HTS programs as permanent "add-ons" to the proposed Local Control Funding Formula since the funds can be used flexibly – for any educational purpose – per the Governor's proposal?
2. DOF/LAO. Given the formulas are outdated, and allocations are so inequitable among districts, why not roll these programs into the new funding formula.
3. DOF. How would the Local Control Funding Formula change if all current TIIG and HTS funding were rolled into the new formula?
  - a. Would districts that currently receive funds keep those dollars in the short-term as hold harmless funding?
  - b. Would it reduce funding targets for districts that currently receive funding?
  - c. Would it provide additional funding for the formula that would be shared by all districts?
4. LAO/CDE. What other alternatives exist for reallocating TIIG and HTS funding in a more equitable manner based upon student needs?

## ISSUE 5. Basic Aid Districts

**Background:** According to the Legislative Analyst's Office, 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.

**Governor LCFF Proposal Modifies State Funding Calculations for Basic Aid Districts.** 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. 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 Governor’s 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.

**LAO Comments.** The LAO believes the Governor’s proposal 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.

The LAO supports the Governor’s proposal to count LPT revenue towards a district’s *entire* LCFF grant, including both the base and supplemental grants.

However, the LAO does not support the Governor’s proposal to guarantee districts the same level of state aid they received in 2012–13.

**Suggested Questions:**

1. What effect does the Governor's proposal to count local property tax revenues toward a district's entire grant have on basic aid districts?
2. Does the Governor's proposal narrow the differences in funding between basic aid and non-basic aid districts statewide?
3. How are the funding needs for high- and low-wealth basic aid districts different? Did the Governor consider different approaches for high- and low-wealth basic aid districts?
4. The LAO recommends a modified approach to the Governor's basic aid proposal to prioritize limited state funds for those districts that do not benefit from excess LPT revenue. How would this work? What are the benefits of such an approach? What is the impact on basic aid districts?

## **ISSUE 6. LCFF Accountability**

**Governor's Accountability Proposal Focused on 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.

**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.

### **Suggested Questions:**

1. What are the benefits of the Local Accountability Plan? How can the Governor's Local Accountability Plan be strengthened?
2. It is not clear under the Governor's plan 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.
  - a. CDE. Could state level monitoring and technical assistance be added to enhance the Governor's plan?
  - b. CDE. What are some current state monitoring models that could build on the Governor's local plan proposal?
  - c. LAO. What are some options for strengthening county oversight as a part of the Governor's plan?
3. How can parent engagement – one of the Governor's LCFF goals -- be assured and enhanced for low-income students, English learners, and students in foster care?
4. The Governor requires Local Accountability Plans to increase the percentage of students who have completed college preparation coursework; and student who have completed career technical education programs. How will career technical education programs be defined? How are career technical education outcomes currently measured for purposes of our state's accountability systems?

## ISSUE 7. Overall Consideration of Governor’s LCFF Proposal

**LAO Identifies Key Issues for Considering the Governor’s LCFF Proposal.** In the conclusion of its recent report – The 2013-14 Budget: Restructuring the K-12 Funding System -- the Legislative Analyst’s Office outlines the following 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.