Monterey County Office of Education

*Leadership, Support, and Service to Prepare All Students for Success*

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*County Superintendent of Schools*

Finance and Business Services | Bulletin No. 13-030

February 27, 2013

To: Superintendents and Chief Business Officials

From: Garry P. Bousum, Associate Superintendent
Finance and Business Services

Subject: Background and Advice on the 2012-13 Second Interim Report

This memorandum provides guidance and technical information regarding the completion of your 2012-13 Second Interim Report and related Multi-Year Projections (MYPs). The advice contained in this version incorporated the Governor's Proposed 2013-14 State Budget and other changes since the "Background and Advice on the 2012-13 First Interim Report", which was issued on November 13, 2012.

## Background

Governor Brown introduced his Proposed 2013-14 State Budget on January 10, 2013. The introduction of the proposed budget begins the legislative process. Many changes will take place over the next several months before the 2013-14 State Budget is enacted.

Under the Governor's budget, the K-14 education (Proposition 98) spending level is \$56.2 billion, an increase of about \$2.7 billion in additional spending authority over current year levels. This proposed spending level is approximately \$450 million higher than the Legislative Analyst's estimate from last November. It reflects the Governor's decision to include \$526 million of Proposition 39 (CA Clean Energy Jobs Act) funding inside the Prop. 98 guarantee because most of these funds will be used for energy efficiency school construction and modernization projects in K-14 schools. This re-benching of the Proposition 98 guarantee accounts for most of the differences between the revenue and expenditure assumptions of the Governor (January) and the Legislative Analyst (LAO) (November) reports. The LAO reported serious concerns with the Governor's inclusion of Proposition 39 revenues toward the Proposition 98 calculation.



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The LAO further states, “This is a serious departure from our longstanding view of how revenues are to be treated for the purposes of Proposition 98.”

In addition to the $2.7 billion of growth funding for K-14 schools, the Governor has available another $2.2 billion of one-time revenue used in the current year for inter-year deferral buy-down to reallocate in 2013-14. The Governor uses these new resources in K-12 education as listed below.

## Monterey County Office of Education Guidance

Based on the fiscal realities that affect school districts, we recommend the following:

- It is expected that school districts will maintain “best fiscal practices.” Our advice to school districts is to continue to be proactive by being conservative and using prudent fiscal management.
- While it is not law yet, prepare for the possible impact of the new Local Control Funding Formula. The fiscal impact will be unique to each district and strong reserve levels will continue to be critical under this model. With the “hold harmless” language no district will receive less in 2013-14 than it did in 2012-13.

  Use the SSC 2013-14 Local Control Funding Formula Simulator to analyze the possible impact of LCFF:
  http://www.sscal.com/lcff_sim.cfm

  The Department of Finance website also provides LCFF funding estimates: http://www.dof.ca.gov/reports_and_periodicals/district_estimate/view.php

- Carefully review your MYPs for one-time revenues and note ending dates of revenues to avoid over projecting those revenues. Our recommendation is to use the SSC dartboard to prepare your MYP budgets using existing revenue limit calculations with COLA, but also keeping in mind what the impact would be if LCFF is implemented in 2013-14.
- Recognize that Proposition 30 revenues are temporary; sales tax increase expires at the end of 2016 and the income tax increase expires in 2018. To manage your Education Protection Account (EPA) entitlement reduction, use the CDE’s principal apportionment payment calculator to project cash receipts for the period of February 2013 through August 2013. http://www.cde.ca.gov/fg/aa/pa/documents/papaycaculator2012.xls
- Cash flow continues to be a critical issue. Revise cash flow projections to reflect EPA entitlement reduction payments and the reductions to intra-year deferrals and cross fiscal year deferrals for future periods.
- Develop contingency plans for Federal sequestration cuts that could impact budget for 2013-14.

## K-12 Budget Adjustments

• K-12 Deferrals – An increase of approximately $1.8 billion in Proposition 98 General Funds 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 are proposed to be paid off by the end of the 2016-17 fiscal year.

• New School District Funding Formula – Additional growth of approximately $1.6 billion in Proposition 98 General Funds for school districts and charter schools.

• Energy Efficiency Investments – An increase of $400.5 million in Proposition 98 General Funds to support energy efficiency projects in schools associated with Proposition 39.

• Charter Schools – An increase of $48.5 million in Proposition 98 General Funds to support projected charter school ADA growth.

• Special Education – An increase of $3.6 million in Proposition 98 General Funds 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 Plan mandates.

• Cost-of-Living (COLA) Adjustment Increases – $62.8 million to support a 1.65% cost-of-living adjustment for a select group of categorical programs that will remain outside the new student funding formula, including Special Education, Child Nutrition, American Indian Education Centers, and the American Indian Early Childhood Education program. COLA adjustments for school district and county office of education revenue limits will be provided through the implementation of the new funding formulas.

• Emergency Repair Program – An increase of $9.7 million in one-time funding from the Proposition 98 General Fund Reversion Account for the Emergency Repair program.

• Local Property Tax Adjustments – An increase of $526.6 million in Proposition 98 General Funds 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 Funds 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 revenue limit funds for school districts and county offices of education as a result of an increase in projected ADA from the 2012 Budget Act. An increase of $2.8 million in 2013-14 as a result of projected ADA growth in 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 Funding 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.

## Restoring Local Control and Making Needs-Based Investments

The Governor's education budget is built around the central theme of local control. He proposes a shift to a locally controlled, needs-based funding structure. In his budget document he states, "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."

In the Governor's State of the State address at a joint session of the Legislature on the Assembly floor on January 24, 2013, he emphasized his proposal to simplify a "funding system that is overly complex, bureaucratically driven and deeply inequitable," and laws that "demand tightly constrained curricula and reams of accountability data." Under his principle theme of local control, or subsidiarity, the Governor believes that higher levels of government should "render assistance to local school districts, but always respect their primary jurisdiction and the dignity and freedom of teachers and students." Subsidiarity, as described by the Governor, "is the idea that a central authority should only perform those tasks which cannot be performed at a more immediate or local level." Moreover, the Governor's Local Control Funding Formula "recognizes the fact that a child in a family making $20,000 a year or speaking a language different from English or living in a foster home requires more help. Equal treatment for children in unequal situations is not justice."

## The Local Control Funding Formula

While not yet law, it is clear that implementation of the Local Control Funding Formula (LCFF) is the Governor's highest priority. It is critical for districts to prepare for the possible impact of this new funding formula beginning with 2013-14. This is especially important in light of the fact that most school districts will receive additional funding for the first time since 2007-08.

The LCFF trailer bill was released on February 1, 2013, and provides a comprehensive rework of the Education Code sections related to school funding and compliance. More than 250 current sections of the Education Code are repealed, including all revenue limit sections, along with 42 categorical programs and reporting requirements.

Although similarly constructed to last year's weighted student formula, the LCFF reflects input from stakeholder groups and the Legislature. This formula establishes a base with supplemental and concentration add-ons for English language learners, free and reduced-price meal eligible students and foster youth students. Different from last year's proposal is the promise of a hold-harmless funding provision. Nevertheless, the transition from the existing funding system into a new and locally controlled funding formula while holding some schools districts at their current funding levels will be complex. Because of this, the fiscal impact of the transition to the LCFF will be unique to each district.

## Major Components of the Local Control Funding Formula

The Administration anticipates that every district and charter school will have transitioned from its current funding level to its new funding target by 2020-21. Funding for this transition will come from year-to-year increases in K- 12's Proposition 98 guarantee.

• Hold Harmless – Under a revised hold harmless provision, no district, charter school or county office will receive less total state revenue than it received in 2012-13. Accordingly, every district and county office will begin with its 2012-13 total funding (combined revenue limit and specific categorical funding). See Appendix A for list of categorical programs.

• Restoration of Base Revenue – The Governor honors a previous commitment to fund, over time, all existing K-12 revenue limit deficits. Revenue growth funding will be used to restore average district, charter school and county.

• District Funding Targets – The LCFF establishes a unique funding target for every district, beginning with base grants and adjusted for a 1.65% COLA and then augmented by a variety of other factors.

The LCFF is a fundamental revision to the way districts, charters and county offices of education are funded. The impacts and effects of this funding reform will be broad and unprecedented. Moreover, the LCFF carries the potential to change much of how LEAs function, from the way COEs and school districts account for expenditures to how schools will track and align outcomes for students. With local control comes local responsibility, and governing boards will have greater flexibility to direct funds according to local priorities. The pressures will be great and numerous, especially in the aftermath of multiple years of program and staffing reductions.

## Local Control Funding Formula Elements

The LCFF is built on base grade span grants to be increased for COLA annually. The starting point for 2013-14 is as follows:

- K-3.... $6,342
- 4-6........$6,437
- 7-8........$6,628
- 9-12......$7,680

The base is then increased for a K-3 grade span add-on of 11.23% of the K-3 base grant.

Until fully implemented, and as a condition of receipt, districts shall make progress toward maintaining an average class size of 24:1, unless a locally bargained alternative ratio is agreed on.  The class size requirement is not subject to waiver by the State Board of Education.

The base is also increased for a 9-12 grade span add-on of 2.8% of the 9-12 base grant.

The base grant is also increased by a supplemental grant and a concentration grant determined by the district or charter school's unduplicated count of pupils eligible for free and reduced price meals, classified as an English Learner, or classified as a foster youth. This data will be reported through CALPADS and is subject to annual review and verification by each COE.

The supplemental grant is equal to the grade span base grant multiplied by 35%, multiplied by the district's or charter school's prior year percentage of unduplicated pupils to the district's total enrollment.

The concentration grant is equal to the grade span base grant multiplied by 35%, multiplied by the percentage of the district's or charter school's prior year unduplicated pupils in excess of 50% of the district's total enrollment.

Districts will continue to be funded on the greater of current or prior year ADA. Charter schools will continue to be funded on current year ADA.

Finally, the district or charter school's LCFF target is then increased by the amount of funding the district received from funds allocated for the Targeted Instructional Improvement Block Grant and the Home to School.

Transportation program in the 2012-13 fiscal year. These amounts are fixed at the 2012-13 amounts for all future years' calculations.

The total LCFF amount is then reduced by property taxes. State aid for LCFF is then reduced by EPA to the extent that EPA funding offset state aid in the prior year. If a district had no state aid in the prior year, EPA funding is not used to reduce the state's obligation under the LCFF.

**<u>The Local Control Funding Formula Calculation</u>**

• Grade span base grants
+
• COLA
+
• K-3 adjustment add-on (11.23% of base grant)
+
• 9-12 adjustment add-on (2.8% of base grant)
+
• Supplemental grant add-on (35% X unduplicated %)
+
• Concentration grant add-on (If unduplicated percent is > 50%, then (35% X (unduplicated % - 50%) X base)
=
• TOTAL, per grade span, multiplied by ADA per grade span
=
• LCFF Grade Span Funding
+
• 2012-13 TIIG Funding
+
• 2012-13 Transportation Funding
=
**Total District or Charter School TARGET LCFF**

To fully assess the impacts of the LCFF proposal and to address changes that may come through legislative committee hearings, we will provide a separate guidance memo in April that will be dedicated specifically to the Local Control Funding Formula and the impact it would have on 2013-14 budget development.

**<u>Situational Guidance to Districts for Second Interim MYPs</u>**

Implementation of the LCFF will be situational for each district. Some districts may receive no additional funding, while others may receive a significant down payment toward their LCFF targets.

During this period of transition, planning around March 15 layoff notices will need to be assessed with the unique circumstances of each district. In particular, districts will need to consider the impacts of staffing for programs like EIA that, under the Governor's proposal, will be folded into base level funding and become unrestricted.

For second interim reporting, SSC recommended during its budget conference in January that districts prepare their MYP (current plus two years) budgets using existing revenue limit calculations with COLA. However, with the release of the trailer bill additional information is now available to help districts build their MYPs in ways that best prepare them for the possibility that the LCFF is implemented in 2013-14.

Based on the Governor's new definition of "hold harmless," no district will receive less in 2013-14 than it did in 2012-13. Under the proposed LCFF language, the amount of growth funding a school district receives will be determined by the proportional gap between its current level of funding and its new funding target.

Because this transitional period places schools between two methods of funding, districts need to work closely with our office in developing their projections for their Second Interim MYPs. Our office recommends that districts continue to be proactive by being conservative and prepare contingency plans until the State determines how districts will be funded.

## MYP Option for Calculating Revenue Limit COLA at Second Interim

The Governor's 2013-14 Proposed State Budget provides for the major reform of education finance. The new proposed funding model has been titled the Local Control Funding Formula (LCFF), as discussed earlier in this memo. The LCFF would replace the revenue limit and most categorical funding for K-12 education. As such, the Governor's 2013-14 Proposed State Budget does not provide any funding for these programs nor is there any reference to current law.

As an option for estimating MYPs at Second Interim using current law, the SSC dartboard could be used until the fate and composition of the LCFF becomes known at or after May Revision.

## Cash Management

In 2012-13, school districts must manage an Education Protection Account (EPA) entitlement reduction that won't be repaid until June 2013. In addition, K-12 LEAs benefit from a buy-down of $2.065 billion in cross fiscal year deferrals. For 2013-14, EPA will be paid quarterly, and the Governor has proposed another buy-down of $1.765 billion.

The 2012-13 budget assumed the passage of Proposition 30 and included a $6.92 billion EPA entitlement reduction that began in July 2012 per Education Code Section 14041(a)(9)(A). The entitlement reduction was calculated as 21.2% of each LEA's

2011-12 P-2 total revenue limit funding (Line E-1 of CDE's 2011-12 P-2 School District Revenue Limit exhibit). Since Proposition 30 was successful, the state will pay back the $6.92 billion by June 30, 2013. However, if Proposition 30 revenues do not materialize as projected, the difference will be paid in July 2013 with the 2012-13 P-2 apportionment.

The Governor's 2013-14 January budget proposal included EPA estimates of $6.699 billion for 2012-13 and $5.406 billion for 2013-14. The $6.699 billion for 2012-13 is lower than the original estimate of $6.92 billion for EPA. As a result, the June 2013 EPA apportionment will decrease and result in a larger P-2 apportionment payment that will be deferred to July 2013. The CDE will certify the 2012-13 P-1 principal apportionment assuming the same EPA entitlement reduction that was used in the 2012-13 advance principal apportionment certification. The 2012-13 P-2 principal apportionment certification will reflect EPA amounts paid in June 2013. For 2013-14, EPA apportionments will be made quarterly, with all EPA apportionments paid by June 30, 2014. The 2013-14 advance principal apportionment certification will likely include an EPA entitlement reduction of $5.406 billion.

Since the EPA entitlement reduction was calculated based on an LEA's total revenue limit funding, the impact to LEA cash flow is unique. The total percent of principal apportionment cash received by June 30, 2013 will be different for each LEA. LEAs are encouraged to use the CDE's principal apportionment payment calculator to project cash receipts for the period of February 2013 through August 2013. The principal apportionment payment calculator can be accessed by visiting: http://www.cde.ca.gov/fg/aa/pa/documents/papaycalculator2012.xls. The calculator will be revised to include 2012-13 P-1 apportionment data in late February or early March.

## Intra-Year Principal Apportionment Deferrals

AB 103, chaptered on May 23, 2012, established intra-year principal deferrals for 2012-13 only. On November 21, 2012, the State Controller, State Treasurer, and Director of Finance jointly determined that there will be sufficient cash in the General Fund to make the following payments that had been deferred or are scheduled to be deferred:

- Accelerate $1.57 billion to K-12 schools from January 2013 to December 2012
- Rescind planned deferrals of $800 million for K-12 schools in March 2013 to April 2013

At this time, there are no intra-year apportionment deferrals for 2013-14. Legislation is required to implement intra-year state cash management deferral solutions in 2013-14. However, intra-year deferrals were implemented in 2011-12 and 2012-13 pursuant to Government Code Sections 16326(a)(1) and 16326(a)(2).

## Cross Fiscal Year Principal Apportionment Deferrals

Because Proposition 30 passed, K-12 principal apportionment cross fiscal year deferrals will be reduced by $2.065 billion commencing in 2012-13. The Governor's 2013-14 January budget proposal includes another reduction of cross fiscal year deferrals equal to $1.8 billion for K-12 schools. At this time, no details have been provided regarding the $1.8 billion deferral buy down. Statewide K-12 principal apportionment cross fiscal year deferrals decreased from $9.4 billion in 2011-12 to $7.4 billion in 2012-13 and are proposed to be reduced to $5.6 billion in 2013-14. Since the remaining cross fiscal year deferrals are ongoing, LEAs should continue to incorporate them in their cash flow projections for future periods.

Our office recommends the following next steps for school districts:

- Immediately revise 2012-13 and 2013-14 cash flow projections to reflect the EPA entitlement reduction payment in June 2013 and the reductions to 2012-13 intra-year deferrals and 2013-14 cross fiscal year deferrals. Use CDE's principal apportionment payment calculator to help with this task. The apportionment calculator is available at: http://www.cde.ca.gov/fg/aa/pa/documents/papaycalculator2012.xls.
- Watch for revised EPA estimates from the CDE. Once EPA is known, update cash flow projections accordingly. For 2013-14, EPA will be paid in quarterly distributions.
- Evaluate cash flow projections as soon as possible and develop a plan of action to address cash shortfalls. Options include:
  - Temporary inter-fund borrowing (Education Code Section 42603)
  - Cross fiscal year tax revenue anticipation notes (TRANs)
  - A temporary transfer from the county treasurer (Education Code Section 42620)

## Special Education

The Governor's Budget for Special Education is funded outside the LCFF and provides $3.6 million funding for ADA growth with a 1.65% COLA.

- Special Education Local Plan Areas (SELPAs) with growth are expected to receive an estimated $473.12 per ADA.
- Estimated COLA is $7.68 per ADA.

The Governor proposes changes to the AB 602 funding formula by allocating federal local assistance funds outside the formula. This is intended to streamline the calculation and correct inequities in the funding SELPAs receive for growth ADA versus the amount they are penalized when they decline.

The proposal rolls $91.4 million of regionalized services and program specialist service funds and $2.5 million in personnel development funds into the AB 602 base.

Mental health services to students with disabilities continue to be the responsibility of school districts. A total of $426 million is provided to support mental health services. Of that amount, $69 million comes from federal funds and the remainder comes from Proposition 98 funding. The mental health funding formula for the distribution of the $426 million will be allocated on a per-ADA basis to the SELPAs.

The Governor proposes to restructure the existing requirements for the Behavioral Intervention Plans (BIP) mandate to eliminate most of the reimbursable costs. The K-12 Mandate Block Grant was increased by $100 million to fund both BIP and Graduation Requirements mandates.

On January 25, 2013, the Commission on State Mandates voted to adopt the Reasonable Reimbursement Methodology (RRM), which reimburses LEAs a flat amount of $10.64 per ADA for each fiscal year from 1993-94 to 2011-12 for BIP mandates. However, starting in 2010-11, costs are offset with AB 602 special education funding. This is being challenged by CSBA so that if successful, LEAs would not have to offset their claim with AB 602 funding.

The $10.64 per ADA would be allocated $1.187 to SELPAs and $9.457 to school districts and county offices of education.

Commencing in 2012-13, the RRM will no longer be able to be used because actual reimbursements claims using actual costs will need to be filed.

The Governor’s proposed 2013-14 State Budget includes a $100 million increase in the Mandate Block Grant to pay for the BIP and Graduation requirement mandates, but is silent on the prior years.

## Categoricals / Federal Funding / New Programs

The Governor’s 2013-14 budget proposal eliminates most categorical program funding except for Special Education, Child Nutrition, QEIA, After School Education and Safety (ASES) and federal programs, and moves restricted funds to unrestricted dollars through base grants per pupil. This represents a major change in the accounting and use of these funds.

Because it is not yet known whether the Governor’s proposal will be accepted by the Legislature, LEAs should use current law to develop their MYPs. This includes budgeting for the temporary flexibility provided in tiered programs with 0% COLA. Most temporary flexibility provisions were extended to June 30, 2015 except for the K-3 Class Size

Reduction (CSR) reduced penalty provisions. The flexibility provisions for the CSR reduced penalties expire on June 30, 2014 instead of June 30, 2015. Because of the LCFF proposal districts are not expected to plan for the return of CSR penalties. However, even the LCFF proposal includes a form of K-3 class size reduction, over time, with associated reduced funding should class sizes rise above 24:1.

## Adult Education

The Governor's Budget shifts the responsibility for Adult Education programs from K-12 schools to community colleges. The proposals establish a new $300 million block grant for community colleges to operate adult education classes. The Governor encourages community colleges to utilize the capacity and expertise available at K-12 district adult schools.

The $588.9 million in existing Adult Education funding currently provided to school districts as Tier III flex funding is proposed to be folded into the LCFF. School districts would be given the flexibility to continue operating the programs. The Adult Education transfer to community colleges is independent of the LCFF proposal.

## Apprenticeship Programs

The Governor's Budget shifts $15.7 million and the responsibility for Apprenticeship Programs at K-12 schools to community colleges.

## Deferred Maintenance

The Governor's Budget proposes funding for the Deferred Maintenance program in the LCFF as part of the base grant. Funds are unrestricted, and no local contribution is required.

Under the new law, Williams Act Settlement requirements are still in place as well as Program Improvement status/requirements. The responsibility to ensure safe, clean and functional school facilities has always been facilitated through the Deferred Maintenance Plan, which is currently not required with Deferred Maintenance as a Tier III program. The Deferred Maintenance Plan will no longer be required if the trailer bill is adopted. Districts should evaluate their deferred maintenance needs and develop a local plan to ensure funds are available to fulfill the needs of long term maintenance and safety. Districts may continue to maintain a deferred maintenance fund, according to Section 17582, even under the trailer bill.

## Federal Sequestration

In January 2013 a deal was struck between the President and Congress to extend middle class tax cuts, increase income taxes on high-income earners and delay the automatic cuts to nondefense discretionary programs, including some education programs, until March 27, 2013. With the exception of Federal Impact Aid, cuts to educational programs would impact budgets for 2013-14. Federal Impact Aid cuts would affect the current year.

The deal is short term, and the current estimate of cuts to certain programs is estimated to be 5.9% for 2013-14 only. The estimate is based on assumptions in federal funding levels and cuts to Congressional spending caps. Absent these changes, the cut could be 8.2%.

LEAs should develop contingency plans for these federal sequestration cuts that could impact budgets for 2013-14.

## Forest Reserve Funds

On January 15, 2013, Tom Vilsack, Agriculture Secretary, announced $323 million will be paid to states based on the one-year reauthorization of the Secure Rural Schools and Community Self-Determination Act. The January distribution for California is $35,777,071, down $2 million from the July 2012 estimate of $37,836,021. The 2013 distribution is also down 9% from the January 2012 allocation of $39,325,918.

http://www.fs.usda.gov/main/pts/securepayments/projectedpayments

## Lottery

Lottery funding will be calculated in the same manner as prior years, except that through 2014-15, the following programs will be funded based on 2007-08 ADA rather than the prior year ADA:

- Adult Education
- Regional Occupational Center and Programs (ROC/P)

LEAs have not accounted for Adult Education and ROC/P ADA since 2007-08. Current language in the LCFF trailer bill does not address changes to the ADA associated with these programs and Lottery funding. It is therefore presumed that 2007-08 ADA will continue to be used. The estimates for 2012-13 and 2013-14 are $124.25 and $124 respectively per annual ADA (unrestricted), and for both 2012-13 and 2013-14 are $30 per annual ADA (Proposition 20 restricted).

## Mandated Costs

The Governor's Budget includes the addition of the Behavioral Intervention Plan (BIP) and Graduation Requirements programs to the Mandate Block Grant and includes $100 million more in the grant to fund them.

The total funding budgeted in 2013-14 is $266.6 million. Only $41,000 is proposed for mandate claims filed under the traditional cost-based program.

Based on the Governor's proposal for 2013-14, Mandate Block Grant funding, as calculated using 2012-13 ADA, would fund $47/ADA for school districts and $24/ADA for charter schools. If implemented similar to last year's Mandate Block Grant, county offices of education would receive $47/ADA plus $1 per countywide ADA. LEAs can continue to elect to file mandate claims under the traditional process based on actual costs. The election to participate in the Mandate Block Grant is on a year-by-year basis. Participation waives the existing claiming process for the mandates contained in the block grant. This provides that all LEAs are reimbursed at the same rate for providing services for the same mandated requirements. All LEAs are subject to compliance audits through their annual independent audit. Audit requirements are still being discussed. Detailed information including the mandates included in the 2012-13 Mandate Block Grant program (Assembly Bill 1016, Statutes of 2012) can be found at:

http://www.cde.ca.gov/fg/aa/ca/mandatebg.asp

School districts also have the option to decline the Mandate Block Grant funding and continue to claim reimbursements under the existing mandate claims process with the same mandate requirements.

LEAs can continue to elect to file mandate claims under the traditional process based on actual costs. For mandates that are not part of the Mandate Block Grant program, claims may be submitted under the current format. Mandates not included are:

- New developer fees. Instructions for filing claims can be found on the State Controller's Office website: http://www.sco.ca.gov/Files-ARD-Local/Instructions/sd_1112_df333.pdf
- Teacher Incentive Program

The mandates suspended in 2011-12 will continue to be suspended in 2013-14. No additional mandates are suspended for 2013-14.

The Governor proposes to restructure the existing requirements for the Behavioral Intervention Plans mandate to eliminate most of the reimbursable costs. The K-12 Mandate Block Grant was increased by $100 million to fund both BIP and Graduation Requirements mandates.

Quality Education Investment Act (QEIA)

The Education Trailer Bill (Chapter 38, 2012) moved the final year of the QEIA program from 2013-14 to 2014-15.

There are no changes to the funding rates for 2013-14, which are:

- $500 per enrolled pupil for kindergarten and grades 1-3
- $900 per enrolled pupil grades 4-8
- $1,000 per enrolled pupil grades 9-12

Under the Governor's Proposed Budget, QEIA is funded outside the LCFF and is not flexible. The LCFF does not affect the funding of this program and future projections of revenue should be based on rates noted above.

## **Routine Restricted Maintenance**

The Governor's Budget proposal eliminates the minimum contribution requirement for Routine Restricted Maintenance. The elimination is intended to be permanent.

It is recommended that LEAs develop staffing and supply allocations for Routine Maintenance to ensure the facilities are safe and maintained in good repair. Districts are not relieved of meeting any requirements under the Williams Act.

## **Targeted Instructional Improvement Grant (TIIG)**

Under the LCFF, Targeted Instructional Improvement Grant (TIIG) funding is allocated to school districts currently receiving those funds as an add-on to the formula. The funds will not include a COLA and are fully unrestricted.

## **Transitional Kindergarten**

SB 1381, Chapter 705, Statutes of 2010 changed the birth date for enrollment in kindergarten by moving the date for eligible age requirement from December 2 to September 1. Under current law these changes are scheduled to be phased in over three years as follows:

- Eligibility by November 1 for 2012-13
- Eligibility by October 1 for 2013-14
- Eligibility by September 1 for 2014-15

This bill mandated a Transitional Kindergarten Program for students displaced as a result of the changes in eligibility birthdates. School districts are eligible to collect ADA for these Transitional Kindergarten students. Under current law, school districts may not receive ADA funding to serve a four year old unless that child has his or her fifth birthday according to the appropriate phase-in period noted above. Children admitted during the school year who do not meet the phase-in period criteria may only be enrolled on a case-by-case basis upon having attained the age of five. The Transitional

Kindergarten program is not required to be operated at every school site, just by the school district to meet its needs.

The Transitional Kindergarten program is subject to the class size provisions and penalties as specified in Education Code 41378. Also, all Education Code provisions that apply to kindergarten students also apply to Transitional Kindergarten students.

The LCFF does not affect the funding of this program, and future projections of revenue should be based on current law and district participation.

## **Transportation**

Under the LCFF, transportation is allocated to school districts currently receiving those funds as an add-on to the formula. Special education transportation funding is included in the add-on. The funds will not include a COLA and are fully unrestricted. If the LCFF is not adopted, estimates of program funding should be based on current law and current district participation. The LCFF is silent on the funding hold harmless treatment for transportation JPAs.

## **Education Protection Act**

Proposition 30 is expected to generate between $6 billion and $9 billion in revenues annually over the next seven years that will be allocated solely to LEAs. The funds are deposited and distributed from a special account established by the initiative called the Education Protection Account (EPA). Expenditure determination of these funds shall be made in open session of a public meeting of the district or charter school governing board or body and shall not include the use any of the funds for salaries or benefits of administrators or any other administrative costs.

Each LEA shall annually publish on its Internet Web site an accounting of how much money was received from the Education Protection Account and how that money was spent.

The distribution of these funds is a component of revenue limit funding, treated like local property taxes received by LEAs, and offsets state aid for schools. The initiative requires the Superintendent of Public Instruction to make allocations from the EPA to LEAs quarterly, and in amounts that are proportional to each LEA's calculated revenue limit as a share of the statewide total revenue limit. The first distribution will occur toward the end of June 2013.

The amount of an LEA's EPA allocation is reduced by local revenues that exceed the revenue limit, except that "... no school district, county office of education, or charter school shall receive less than two hundred dollars ($200) per unit of average daily attendance." The initiative further states that LEAs will have sole authority to determine how the moneys received from the EPA are spent (within certain limitations and reporting requirements). Finally, the education trailer bill to the 2012-13 state budget amended the revenue limit calculation for LEAs to include EPA funds in the calculation of local revenues, offsetting the state aid portion of the revenue limit.

The LCFF trailer bill includes clean up legislation that addresses the way EPA dollars are calculated. This legislation states that the basic aid determination is made exclusive of EPA dollars. Moreover, EPA dollars will reduce the state's obligation to fund state aid only to the extent that EPA dollars offset state aid in the prior year.
Consistent with Proposition 30's promise, the effect of this language ensures that no district shall receive less than $200 per ADA.

Basic Aid School Districts

Under current law and beginning with ABX4 2 (Chapter 2, 2009), basic aid districts have been subject to fair share reductions. A basic aid district's fair share reduction is calculated against its total revenue limit funding subject to deficit. This amount is then taken from categorical revenues to the extent that those revenues are available. The fair share reduction is 9.57% in 2012-13, and will be 8.92% starting in 2013-14 as a result of SB 81, which shifted the midyear transportation trigger reductions to a one-time revenue limit reduction, including one-time fair share reductions for basic aid districts.

The LCFF trailer bill provides a new definition of a basic aid district. The LCFF language states the determination of a basic aid district is made exclusive of funds received through EPA and further excludes revenues received through the LCFF hold harmless calculation. Through the hold harmless language of the LCFF, each basic aid district is guaranteed to receive state aid equal to its 2012-13 categorical funding, after fair share reduction. Consistent with the current provisions of the EPA, basic aid districts will receive $200 per ADA in 2012-13 and each year thereafter. Through the implementation of LCFF, basic aid districts that lose their basic aid status will receive a proportionate offset to the EPA minimum funding as state aid revenues grow through LCFF gap funding.

## Necessary Small Schools

Several changes are proposed with regard to Necessary Small School funding calculations. The education trailer bill proposes a slight reduction in the threshold at which point a school district becomes eligible for Necessary Small School funding. This reduction is consistent across all grade levels and school types. The definition of the nearest other public elementary or high school, for necessary small school eligibility based on distance, is amended to include charter schools. The language regarding "the only high school maintained by a unified district" has been removed as a qualifying factor for Necessary Small School funding. Current law requires a review of the determinative factors to maintain necessary small high school status every five years. The trailer bill amends this code to require the status review every two years. Districts relying on Necessary Small School funding will want to review the trailer bill language carefully to ensure proper revenue calculations have been made for 2013-14 and beyond.

## **Charter Schools**

The Governor's proposal includes an increase of $48.5 million for charter school ADA growth and includes charter schools in the LCFF. Like school districts, charters would receive a concentration grant that could be used for any educational purpose. However, charter schools would be limited to no more than the concentration grant increase provided to the school district where the charter school resides.

A few other details require charter school allocations to be linked to the local school district(s) in which the charter resides. The LCFF requires the use of the percentage of the charter's unduplicated pupils in excess of 50% to be limited to the percentage of unduplicated pupils in excess of 50% of the single school district in which the charter school is physically located. If the charter school is physically located where there is more than one school district, then that charter's percentage shall not exceed that of the school district with the highest percentage in excess of 50%. Other areas in the LCFF follow current law, such as in-lieu property tax transfers, and the continued use of the greater of current or prior year ADA that is exclusive to school districts.

In addition, the Governor reintroduced several charter school proposals from last year. They include:

- Giving charters priority on surplus property for five additional years. This would extend the current one-year requirement for school districts with surplus property to first offer to sell to charter schools.
- Consolidating charter financing authority. This would shift the Charter School Facility Grant program and the Charter School Revolving Loan program from the CDE to the California School Finance Authority.
- Simplifying funding for online charters. This would modify the SB 740 funding determination process for non-classroom based charter schools by (1) limiting it to the first and third years of operation in most instances and (2) requiring charters found out of compliance with minimum standards and applicable laws to comply with annual funding determinations.
- Allowing online charters to access facilities funding. This would expand the Charter Schools Facility Grant program to include eligibility for non-classroom based charter schools.

## Child Care and Preschool Programs

The Governor's 2013-14 Proposed State Budget does not include funding for Cost of Living Adjustments (COLA) otherwise included in the proposed new Proposition 98 funding model. The proposal continues the requirement that fees be assessed and collected for families with children in part-day preschool programs, families receiving wraparound child care services, or both, and that those fees cannot exceed 10% of the family's total income.

Other specifics include:

- CalWORKS caseload adjustments result in decreases in Stage 2 (-$21 million) and increases in Stage 3 ($24.2 million) to primarily reflect the transition of children from stage 2 to stage 3.
- 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.
- Eliminates CalSAFE as an educational categorical program. This reflects the Governor's proposal to eliminate all such categorical funding and to shift funds to local discretion as part of the new LCFF funding model.
- Negative growth factor of (-0.05%) due to fewer 0-4 year-old children in California.

As has been proposed several times in the past, the January budget proposes shifting the Alternative Payment program to counties to be grouped together with other welfare programs. Counties would then have the authority under this proposal to modify and regulate the Alternative Payment program rather than the current model. It remains to be seen whether this shift will be successful in the final budget.

The Governor's Budget proposal states that 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." These stakeholder meetings will include discussion of realignment, restricting, and/or funds reallocation. Meetings will be held in March, with a final report due in April. It is still unclear who will be selected to serve on the workgroup, and whether these meetings will be open to the public.

## Reserves for Economic Uncertainties

The revised 2009-10 enacted budget lowered the minimum reserve requirement levels for economic uncertainties to one-third the percentage level adopted by the State Board of Education as of May 1, 2009. SB 70 extended this provision for both 2010-11 and

2011-12. However, school districts are required to make progress in the 2012-13 fiscal year to return to compliance with the specified standards and criteria adopted by the State Board of Education.

By fiscal year 2013-14, school districts must meet compliance and restore the reserves to the percentage adopted by the State Board of Education as of May 1, 2009. The percentages established in the Criteria and Standards for reserves prior to the current enacted budget should be viewed as the bare minimum. If a school district reduces the minimum reserve levels, it will take budget reductions of twice the amount of the lowered reserve levels to fully restore the reserve by June 30, 2014. With the continued deferral of apportionments, it is still important to maintain higher levels of reserves for cash flow purposes.

Under the LCFF, MYPs carry additional risks in projecting English Language Learners, free and reduced price lunch eligibility and foster youth student counts, especially for small districts where these counts may fluctuate on a percentage basis. As these unduplicated percentages change from year to year, supplemental and concentration grant funding will vary. Because of this, strong reserve levels will continue to be critical under the LCFF model.

## Negotiations

School districts considering a multi-year contract need to be very cautious and have contingency language that protects them from cost increases beyond their control (e.g., pension reform, health care reform and/or LCFF). The implementation of health care reform may incur unanticipated employer costs beyond the scope of bargaining. For this reason, districts are encouraged to exercise caution when bargaining ongoing commitments for health care benefits.

The LCFF will provide different funding increases, and in some cases no funding increases at all. This will place additional pressures on district to maintain competitive salaries where some districts may be in a better position to negotiate increases than others.

Also, school districts should consider that the Proposition 30 sales tax expires at the end of 2016 and the income tax increase expires in 2018.

## Summary

School district budgets should be managed with great awareness of the significant risk created by volatile state revenues. In these times of great change and continued economic uncertainty, districts need reserves that are much greater than the minimum.

School districts should continue to be cautious and focus on a multi-year strategy in recommending decisions and obtaining agreements. Attention should be focused on the MYPs for 2013-14 and beyond, with special emphasis on the funding variability associated with the LCFF. Financial projections and contingency plans should be developed accordingly.

It is difficult for school districts to deal with the increased pressures to restore programs and salaries. Districts should be proactive to maintain their fiscal solvency by developing contingency plans that allow the most flexibility possible.

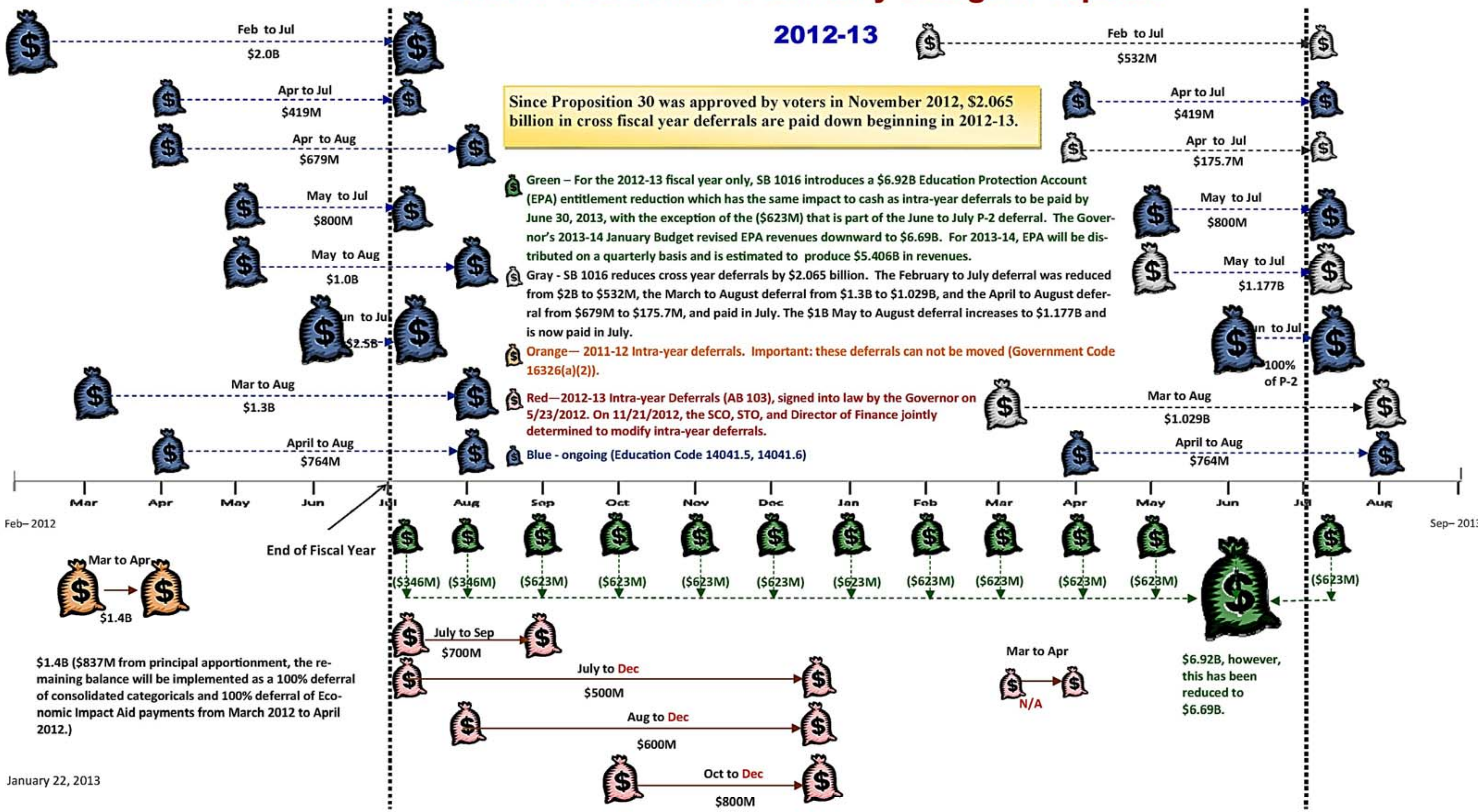
Appendix A

## Hold Harmless

Beginning in 2013-14, begin with each school district's revenue limit or charter school's total prior year revenue, adjusted for growth, plus amounts received in the following categorical programs:

- Supplemental Instruction (Summer School)
- ROC/P
- Supplemental School Counseling Program
- Home to School Transportation
- Foster Youth Programs
- Specialized Secondary Programs
- GATE
- EIA
- Math and Reading Professional Development
- Administrator Training
- Adult Ed
- Adults in Correctional Facilities
- Partnership Academies
- Agricultural Vocational Education
- Educational Technology – CTAP
- Deferred Maintenance
- Instructional Materials Block Grant
- Community Day Schools
- Bilingual Teacher Training Assistance Program
- National Board Certification Incentives
- CalSAFE
- CAHSEE – Instructional Support & Services
- Civic Education
- Teacher Dismissal Apportionment
- Charter School Categorical Block Grant
- Community Based English Tutoring
- School Safety Block Grant (8-12)
- Class Size Reduction, 9$^{th}$ Grade
- Advanced Placement and IB
- California School of Student Councils
- Pupil Retention Block Grant
- Teacher Credentialing Block Grant
- Professional Development Block Grant
- Targeted Instruction Improvement Grant
- School and Library Improvement Block Grant
- School Safety Consolidated Competitive Grants
- Physical Education Teacher Incentive Grants
- Arts and Music Block Grant
- Certificated Staff Mentoring
- Child Oral Health Assessments
- BTSA
- Class Size Reduction

# Delayed Principal Apportionment Funding
## 2013-14 Governor's January Budget Proposal




January 22, 2013

# Delayed Principal Apportionment Funding

## 2013-14 Governor's January Budget Proposal