



Monterey County Office of Education

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

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Finance and Business Services

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To: Superintendents and Chief Business Officials

From: Garry P. Bousum, Associate Superintendent
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Subject: Local Control Funding Formula

Since May 2008, county office chief business officials have crafted common messages to give guidance to school districts on assumptions for budget and interim reports. The goal is to provide a consistent message that can be used for your district.

This memorandum provides updated information for the Local Control Funding Formula (LCFF), including the California Department of Finance's answers to the LCFF Frequently Asked Questions (FAQs).

Information related to recent developments surrounding federal sequestration also is included. Further, this supplement includes information related to the Education Protection Act (EPA), Tier III Flexibility and Economic Impact Aid (EIA) reporting requirements. EPA and Tier III both require board action before the end of the year; EIA requires the posting of expenditure and related fiscal information on LEA websites.

This supplement also provides information on potential increases to CalSTRS and CalPERS.

The Local Control Funding Formula - Updates

Since the release of the LCFF Trailer Bill on February 1, 2013, the BASC has been in frequent communication with the Department of Finance (DOF). During this time and with the help of FCMAT, we have developed a list of LCFF FAQs, answered by the DOF in this re-release.

Recognizing that the Governor's May Revision will be released shortly, this supplement seeks to provide clarity on information related to CALPADS and CDE and DOF LCFF estimates.

Through discussions with the DOF we anticipate revisions and cleanup to the current LCFF Trailer Bill. Because of this, the BASC will release a full Common Message after the release of the Governor's May Revision.

LCFF Frequently Asked Questions (FAQs)

Answers to the following questions are provided by the California Department of Finance.

LCFF – General Questions

- Does the local control funding formula restore the \$10.5 billion in cuts districts have experienced during the great recession?

DOF Answer: *At full implementation, over \$15 billion will be invested in schools on top of full cost-of-living adjustments for the entire local control funding formula grants.*

- Does the local control funding formula redistribute funding my district received in 2012-13 to other school districts?

DOF Answer: *No, the funding formula transitions school districts to the formula utilizing Proposition 98 growth funding and does not redistribute funding a school district would have received in 2012-13. Further, basic aid districts will continue to retain local property tax revenues and continue to see their funding rise as property tax revenues increase.*

- Why is this the right time to move ahead with a new funding formula, given that school districts, charter schools, and county offices of education are still living with base reductions to their revenue limits and categorical programs?

DOF Answer: *Under the current school finance system, funding for school districts and county offices of education is distributed inequitably, not tied to student demographics, and largely state-controlled. Restoring funding within the current school finance system would restore funding through a complex and inequitable system. Instituting the Local Control Funding Formula will ensure*

school funding equitably reflects student demographics by having student needs drive the allocation of resources and that school funding is locally controlled and state bureaucracy is reduced by providing localities with sufficient flexibility to determine educational inputs.

CALPADS

- How did the Department of Finance compute the English language learner and low income pupil percentages? How will any anomalies be reconciled?

DOF Answer: *To compute the English learner and low income pupils percentages, the Department of Finance obtained 2011-12 English learner and free and reduced price meal data from the Department of Education utilizing CALPADS data and divided that data by the district's total enrollment. School districts will need to work with the Department of Education to ensure their 2012-13 and 2013-14 data submissions are accurately reflected. The Department of Education recently posted 2012-13 preliminary free and reduced price meal, English learner, and unduplicated count data on their website at the following link <http://www.cde.ca.gov/ds/sd/sd/filesspel.asp>. If a district has any specific concerns with the data presented on their recently released report, or if a district has any future data concerns, please contact Randy Bonnell with the California Department of Education (rbonnell@cde.ca.gov).*

District Funding Targets

- Does the local control funding formula provide funding for average daily attendance growth during the transition period?

DOF Answer: *Yes, the formula provides funding for growth in average daily attendance during the transition period. Each year the starting point for a district toward transitioning to the formula target will be the district's total categorical program funding, any funding received toward transitioning to the formula in the previous year adjusted for changes in ADA, and a 2012-13 revenue limit base rate adjusted for changes to average daily attendance and local revenues. During implementation, funding for average daily attendance growth will be allocated to school districts before determining the allocations of funding to school districts toward meeting their local control funding formula target.*

- Will districts receive the greater of current or prior year unduplicated percentage for purposes of calculating Supplemental and Concentration grant add-ons?

DOF Answer: *At this time, the formula does not provide districts with a declining unduplicated percentage adjustment for purposes of calculating the supplemental and concentration grants. However, the Administration is considering alternatives such as the inclusion of a three year rolling unduplicated count average within the LCFF.*

- Why is it necessary to provide additional resources (the concentration grant) to students in districts with unduplicated populations in excess of 50%?

DOF Answer: *A concentration factor is necessary to provide additional assistance to school districts with high concentrations of English learners, economically disadvantaged students, and foster youth. Empirical research indicates students that attend districts with high concentrations of English learners, economically disadvantaged students, and foster youth have worse educational outcomes than those students in districts with low proportions of English learners, economically disadvantaged students, and foster youth. The Administration has adjusted the level of the concentration grant to respond to stakeholder feedback.*

- Because the concentration grant requires districts to have an unduplicated population in excess of 50%, will this lead to a sudden loss of funding for districts that are just below the 50% qualifying criteria?

DOF Answer: *No, the concentration grant is an incremental adjustment that targets additional resources based only on the percentage of unduplicated students in excess of 50%. Because the adjustment is incremental, there is no "cliff" effect. For example, a district with a 49.9% unduplicated percentage will receive no concentration grants, where a district with a 50.1% unduplicated percentage will receive concentration grants based only on the 0.1% above the threshold. Therefore, the range of concentration grants would vary based on an unduplicated percentage in excess of 50% from 0% to 50% on a sliding scale, which equates to a maximum per ADA adjustment of 0% (0% X 35% concentration grant weight) to 17.5% (50% X 35% concentration grant weight).*

- Do the base grant funding levels provide adequate resources in order for all school districts to deliver an appropriate education?

DOF Answer: *There is little academic research that indicates what an "adequate" level of funding would be. The formula base grant targets reflect what average revenue limit rates would be in 2012-13 if the state had restored all reductions and provided foregone COLA funding since 2007-08. The Administration is committed to significantly increasing funding for education within the constraint of maintaining the state's long-term fiscal stability.*

Hold Harmless

JPAs

- Will districts who are members of a Transportation JPA be held harmless for their transportation entitlements? If so, how will these amounts be determined?

DOF Answer: *The hold harmless is calculated only for school districts, county offices, and charter schools. Transportation funds that are currently flowing directly to a JPA would instead be provided to the school district, county office, or charter school that originally generated the funding in their hold harmless allocations under the LCFF. School districts, county offices, and charter schools could continue to participate in and provide funding to JPAs at their discretion. We have heard various concerns on the impact of this change on JPAs that currently receive funding directly from the state and are looking into this issue in greater detail. Any changes will be included in our May Revision proposal.*

Basic Aid Districts

- Will the hold harmless categorical funding for basic aid districts be calculated net of fair share reduction as calculated on 2012-13 revenue limit and therefore based on 8.92%; and will the hold harmless for basic aid districts be based on the total aggregate amounts net of fair share as opposed to holding basic aid districts harmless at individual categorical cash receipt amounts?

DOF Answer: *The basic aid hold harmless will be the aggregate 2012-13 amount received by that district from all applicable categorical programs net of the fair share reduction of 8.92%. Whether computed individually, or in aggregate, the hold harmless amount for basic aid districts will result in the same net amount and the hold harmless amounts from categorical programs will not change from year-to-year.*

K-3 Class Size Augmentation

- Upon full implementation of the LCFF, if a district operates a higher school site class-size average than 24:1, as collectively bargained, will the district still receive the full 11.23% funding augmentation? Is this different during implementation?

DOF Answer: *Once fully implemented, in order to receive the 11.23% K-3 adjustment, districts must either maintain a classroom average of no greater than 24:1 or collectively bargain an alternative classroom average. During implementation, school districts will either have to: (1) make progress toward a 24:1 classroom average, (2) maintain no higher than a 24:1 classroom average (if the district already maintains a classroom average lower than 24:1), or (3) collectively bargain an alternative classroom average. School districts that do not meet the class-size requirements specified above will not be eligible for the K-3 LCFF add-on adjustment in that year.*

Targeted Instructional Improvement Grant and Home-to-School Transportation

- What was the rationale for including the Targeted Instructional Improvement Grant program and Home-to-School Transportation program as “add-ons” to the formula?

DOF Answer: *These programs were continued as "add-ons" to the formula because the funding is used to operate court ordered desegregation programs. Including this funding within the formula, rather than as an "add-on" may violate active court orders and could result in costly litigation.*

Necessary Small Schools

- How is necessary small school funding calculated under the LCFF?

DOF Answer: *The criteria to qualify for necessary small school funding will be adjusted to eliminate the current automatic qualification of eligible school districts that have only one elementary or high school site. School sites will be eligible for necessary small school funding if it meets either the geographic isolation, topography or other hardship conditions. Further, a charter school will be defined as a public agency for purposes of determining geographic isolation (however, charter schools will continue to be ineligible for necessary small school funding). Necessary small school funding adjustments will be included in a district's LCFF target, similar to the necessary small school inclusion within revenue limits. As such, funding will be restored in accordance within the estimated seven-year LCFF implementation timeframe to an undeficit level plus annual cost of living adjustments.*

District Reorganization

- Will the law change regarding district reorganizations? How will the base and target grants for newly formed districts be computed?

DOF Answer: *Yes, the Administration is proposing to amend district reorganizations statutes to reflect the LCFF. During the LCFF implementation period, newly reorganizing districts would:*

- (1) Compute a blended per ADA LCFF allocation (during the implementation period) for the immediate prior year, similar to the current per ADA blended revenue limit rate.*
- (2) Compute a combined LCFF target for the newly formed district.*
- (3) The blended LCFF allocation and the computed LCFF target would then be used to transition the newly formed district toward its LCFF target.*
- (4) Once the formula is fully implemented, the LCFF allocation for a newly formed district would be based on the LCFF calculation of the newly formed district.*

(5) Reorganizing districts would no longer receive an augmentation for differences in district salaries.

(6) Any district(s) that began the reorganization process prior to July 1, 2013 would complete their reorganization pursuant to current law.

County Office of Education Revenue Transfers

- Will county offices of education continue to receive revenue transfers for students served through county-operated programs?

DOF Answer: *County offices of education will receive funding directly for students who are mandatorily-expelled, probation-referred, on probation or parole, or incarcerated. If a county office of education provides instruction in a county-operated school to a student who does not fall within any of these classifications, funding for this student would be apportioned to the student's districts and a county office would need to reach an agreement with the student's district of residence to transfer funding to the county office.*

Accountability Plans

- How does the LCFF ensure that the additional funds generated for English learners, children from low-income families, and foster children would be spent to address the needs of those students?

DOF Answer: *Every school district and county office of education will be required to develop a local accountability plan that identifies and addresses the needs of English learners, children from low-income families, and foster children. In its local control and accountability plan, a school district or county office will be required to identify how the supplemental and concentration grant money they receive for these children will be spent to address their needs. The district's or county office's budget will be required to align with these plans. County offices of education will review each district's plan to ensure that they meet all requirements and that they are aligned to the district's budget.*

- What will a local control and accountability plan include?

DOF Answer: *A local control and accountability plan will identify goals and describe specific actions a school district or county office of education will take and strategies the local agency will use to achieve statewide goals. These goals are identified in the proposed statute and include the actions that will be taken to provide basic school conditions, meet student achievement goals, and identify and address the needs of English learners, students from low-income families, foster children, and incarcerated students. The State Board of Education will adopt a template for the local plans.*

- What will happen if a school district or county office of education does not spend funding according to its adopted local control and accountability plan?

DOF Answer: Annual financial and compliance audits—which are already required of all school districts, county offices of education, and charter schools—also will now include an evaluation of whether funding has been spent pursuant to an adopted local control and accountability plan. If an audit finds that a local agency has not spent funding according to its local plan, the local agency will be required to implement corrective actions.

Furthermore, if a parent or any other member of the public believes that a local agency is not spending funds according to its adopted local control and accountability plan, that person will be able to use the state’s uniform complaint procedures to seek a resolution.

LCFF Estimates

Both the DOF and the California Department of Education (CDE) have released preliminary and comparative estimates for the LCFF.

Both sets of data are projected estimates only and should not be used for planning purposes. They are simply illustrative of potential funding differences under the proposed LCFF and current law.

At the request of the Legislative Analyst’s Office, on April 2, 2013 the CDE released a report detailing district free and reduced price meals (FRPM) and English Learner (EL) percentages and estimating district revenues under current law and under LCFF. The estimated projections can be found at

<http://www.cde.ca.gov/fg/fr/eb/documents/fundmdlfndngformula.xls> . The CDE used the following assumptions when building this side by side comparison:

CDE Current Law Estimates

- Restoration of deficits (approximately 22%) on revenue limit and categoricals
- No growth or decline in ADA
- 1.65% COLA for 2013-14
- An additional \$1,200 per ADA (equal distribution per ADA of the remaining amount of estimated Prop. 98 funding)
- The amounts are state entitlements only and do not account for property taxes

CDE LCFF Funding Model (2011-12 data):

<http://www.cde.ca.gov/fg/fr/eb/fundingformulaprojections.asp>

- Includes all K-12 enrollment data from CALPADS
- FRPM data is limited to eligible students ages 5-17. The data used was previously collected for ConApp, which is the basis for the age limitation.
- Full funding at target levels by end of phase-in period and includes COLA in 2013-14 but not subsequent years.
- The supplemental/concentration factor is calculated based on FRPM percentage plus 0.258 times the EL percentage because unduplicated counts are unavailable for the 2011-12 fiscal year.
- The projections are state entitlements only and do not account for property taxes. Minimum state aid for basic aid districts is calculated to equal state categorical aid in the base year including EPA funding.

DOF Side by Side Funding Comparison

On April 9, 2013 the DOF released a side-by-side comparison of funding each district could expect under the LCFF, revenue limit and categoricals as currently enacted in law. These comparative charts can be found at:

<http://abgt.assembly.ca.gov/sub2hearingagendas> titled *Bonilla Top 50 and Bonilla All Districts*.

To calculate the potential funding under current law, the DOF used the following assumptions provided by the Assembly:

- Restore all deficits to the base revenue limit (22%) and categoricals (approximately 20%).
- Provide COLA on the base revenue limit over the seven-year period totaling approximately a 12-14% increase based on a three-year rolling average COLA in the out years.
- No COLA adjustments for categoricals.
- Approximately \$1,100 per ADA additional funding based on an estimated additional \$6.5 billion in Prop 98 guarantee.

LCFF and CALPADS

The Governor's proposed LCFF provides supplemental funding for students that are eligible for FRPM, are English Learners (EL), or foster youth. Because of this, the importance of the FRPM, EL and foster youth counts will increase.

LCFF and the Advance Apportionment

In the event the LCFF is passed and implemented in time for 2013-14, CDE reports the advance apportionment will be based on P2 revenue limit and general purpose funding and will include categorical funding entitlements from 2012-13 that are not already paid within the principal apportionment. Further, the CDE reports that calculations will provide an increase for growth and COLA (currently estimated at \$1.6 billion) in proportion to revenue limits. At this point, P1 apportionments would be the first point at which CDE could use CALPADS data. The CDE estimates they may base 2013-14 P1 apportionment calculations using 2013-14 P1 ADA and 2012-13 enrollment, FRPM, and EL counts from CALPADS using Fall 1 2012. Further they estimate that apportionments would be certified at P2 using 2013-14 Fall 1 2013 data.

The CDE and DOF are also discussing possible data and timing adjustments that may be needed with implementation of the LCFF. These discussions include the development of an interim contingency plan for 2013-14 that may be used in calculating the P1 apportionments so that CALPADS data and reporting periods align with the LCFF.

Unduplicated Counts

On March 18, 2013, the CDE released the 2012-13 Unduplicated Student Poverty & EL Designation Data. As described in the CALPADS Update Flash #72, this downloadable file includes data for all schools other than provision 2 or 3 schools, as part of their 2012-13 Fall 1 submission. Since schools with a National School Lunch Program (NSLP) provision 2 or 3 status are prohibited from collecting FRPM applications for individual students, the file identifies which schools have a provision 2 or 3 status, and for those schools includes the percentages only of students eligible for free lunches or FRPM based on:

- Their base year percentage derived from October 2012 claims data reported to the CDE's Nutrition Services Division, or
- The base percentage certified in the Consolidated Application Reporting System (CARS) in 2011-12, whichever was higher.

It is not yet clear how provision 2 or 3 schools' FRPM counts for LCFF calculations will be obtained. The current CALPADS 5.1a Free or Reduced Price Meal Eligibility – Count Report reflects unduplicated counts for both ages 5-17 and grades K-12 (reflected in the Unduplicated Total columns of the report). K-12 is based on grade, not age, so 4-year-olds in kindergarten and 18-22-year-olds in grade 12 and/or "ungraded" are counted.

Although correcting spring 2013 CALPADS reporting to more accurately reflect district data is important, it is imperative that districts develop or refine their system for accurately gathering, reporting, and certifying data in CALPADS now and in the future. Districts should consider printing the CALPADS report and comparing it to the FRPM and EL counts as reported in the district student information system. Additionally, districts

should consider having the EL coordinator and administrator of the child nutrition program review and certify that the CALPADS report accurately reflects the student population.

Current CALPADS Data Use

The data certified in the CALPADS Annual Submissions are used for many purposes including funding calculations for various State and Federal programs. FCMAT/CSIS has prepared a table of reporting periods and associated state and federal program and data uses (Appendix A).

New CALPADS Functionality: County and Authorizing LEA Reports

The LCFF will require COEs to certify unduplicated LEA counts. [CALPADS Update Flash 73](#) recently announced that county offices of education will have access to certified reports for all LEAs and independently reporting charter schools in the county. Access to these reports will be set by the LEA administrator.

These reports will be the same as existing certification reports, but will be aggregated to the LEA level and will drill down to the school level. Only certified data will be reflected.

Revenue Limit Calculations & the LCFF

Under the Governor's LCFF proposal, most revenue limit add-ons would be eliminated. This includes the elimination of the revenue limit adjustment for State Unemployment Insurance (UI), PERS Reduction, Meals for Needy Pupils, and Beginning Teacher Salary. The current level of funding for these programs is folded into the LCFF. These amounts would no longer be adjusted for changes in districts' UI expenditures or in PERS contribution rates; thus districts will be expected to cover any increased costs associated with increased unemployment insurance expenses, PERS rate increases or other district specific adjustments as currently applied to district revenue limit calculations.

Education Protection Account (EPA)

The California Department of Education recently released information and frequently asked questions on the EPA. The [Education Protection Account \(EPA\) Web page](#) provides information on local educational agencies' (LEAs') EPA entitlements, the resulting impact to state funding, and FAQs. A calculator is also available to help LEAs estimate their 2012-13 fiscal year EPA and principal apportionment entitlements and cash flow. These estimates may be included with EPA public posting requirements.

The language in the constitutional amendment requires that funds shall not be used for the salaries and benefits of administrators or any other administrative costs. LEA boards must make annual spending determinations in an open session at a public meeting. Though not required, a sample resolution is included as an attachment. Districts are also required to annually post on their website an accounting of how much money was received from EPA and how that money was spent.

Tier III Flexibility Reporting Requirements

Current law (Education Code 42605) states that as a condition of the receipt of Tier III categorical program funding, the governing board of a school district or county office must hold a public hearing to discuss and approve or disapprove the proposed explicit use of each Tier III program's funding. This hearing must take place regardless of whether districts opt to use funds for their original purpose or for another purpose.

The Tier III public hearing must be held prior to and independent of a meeting at which the budget is adopted. AB 189 also requires a governing board to identify, in the notice of the public hearing, any Tier III program that is proposed to be closed.

Noncompliance puts a district's entire Tier III entitlement at risk; thus it is critical to make sure that the public hearings are held and contain the required elements.

For fiscal years 2012-13 and beyond, the Education Audit Appeals Panel recently removed from the K-12 audit guide the requirement that auditors verify that a Tier III public hearing was held. Nonetheless, the legal requirements to comply with Education Code 42605 remain unchanged.

EIA Reporting

Senate Bill (SB) 754 (Chapter 573, Statutes of 2012) requires school districts to post expenditure and related fiscal information on their websites to receive Economic Impact Aid (EIA) funds. Compliance with this law will affect receipt of EIA funds beginning in 2013-14.

This information must be posted in an easily accessible location on school district websites. Because compliance with this provision is a condition of receipt of future EIA funding, the CDE will add a new certification in the Consolidated Application. Before applying for EIA funding for the 2013-14 fiscal year, districts will be required to sign an assurance in the Categorical Allocation and Reporting System submission due July 2013 indicating they have posted the required information for the 2012-13 and 2011-12 fiscal years.

More information can be found at <http://www.cde.ca.gov/fg/fo/r14/sb754ltr.asp>

Federal Sequestration

Although Congress has approved legislation (HR 933) that averts a government shutdown for fiscal year 2013, automatic sequestration cuts are still in place for the 2013-14 school year unless Congress enacts and the President signs legislation that eliminates or reduces the sequestration cuts to education. Without Congressional action, with the exception of Federal Impact Aid, cuts to educational programs will impact local educational agency budgets for 2013-14. Federal Impact Aid cuts affect the current school year.

Ongoing sequestration reductions are still a real possibility. The Senate assumes that sequestration cuts will not take place after fiscal year 2013, while the House of

Representatives assumes that the cuts will be implemented in fiscal year 2014 and beyond. Congress and the Administration still need to resolve the sequestration issue for subsequent years.

For 2013-14 budget development and multiyear planning, it is recommended that local educational agencies assume a 5.2% reduction in most federal programs for the 2013-14 school year budget and for subsequent fiscal years until Congress resolves sequestration issues.

Forest Reserve

On March 19, 2013, Thomas Tidwell of the United States Department of Agriculture sent letters to state governors regarding sequestration and Forest Reserve funding allocated in January 2013. In the letter, he requested the return or recovery of 5.1% of the amount paid. Although efforts are being made to mitigate this request, districts should develop contingency plans in the event these efforts are unsuccessful.

Retirement

PERS

On April 17th, the PERS board voted to approve a new asset smoothing methodology that will be used to reach full funding of the plan over the next 30 years.

Under current statute, Local Educational Agencies are responsible for a maximum of 13.02%. Current rates for 2012-13 are 11.417%. The PERS employer contribution rate for 2013-14 is expected to be approved at the May board meeting. The approved asset smoothing methodology is effective beginning with the 2015-16 fiscal year, with a starting rate of 13.30%. These rates are anticipated to climb, and are estimated to reach 18.9% in 2019-20.

With implementation of Local Control Funding Formula, PERS Revenue limit reduction is eliminated, increasing an LEA's exposure to the higher contribution rates listed above. Additional employer contributions should be anticipated when creating multi-year projections.

STRS

On February 8, 2013, CalSTRS presented a draft report to reflect possibilities to strengthen the funded status of the defined benefit program. If not redefined, the program will deplete all of its assets in approximately 30 years. There are many options presented in the report, each of which utilizes a blended approach of increasing member, employer and state contributions. Some of the proposals in the draft include changes to employer (Local Educational Agency) contributions as early as 2014/15.

Districts need to exercise caution when preparing multi-year projections due to pension reform uncertainty and the potential for increased costs for both STRS and PERS employer benefit contributions in the coming years.

Summary

In its current form, some districts would receive no additional funding, while others would receive a significant down payment toward their LCFF targets. Based on the LCFF's hold harmless provision, no district will receive less in 2013-14 than it did in 2012-13. Under the proposed LCFF language, the amount of 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 continue to work closely with their county offices of education during budget development for 2013-14.

The May Revision will provide further information and guidance.