AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assemblymember Kevin McCarty, Chair

TUESDAY, MARCH 10, 2015

9:00 AM - STATE CAPITOL ROOM 444

ITEMS TO BE HEARD

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6100 DEPARTMENT OF EDUCATION

ISSUE 1: LOCAL CONTROL FUNDING FORMULA AND LOCAL CONTROL ACCOUNTABILITY PLANS IMPLEMENTATION UPDATE (INFORMATION ONLY)

The Subcommittee will hear an update on the implementation of the Local Control Funding Formula and Local Control Accountability Plans at the state and local levels.

PANEL 1: STATEWIDE PERSPECTIVE

- Carolyn Chu, Legislative Analyst's Office
- Monique Ramos, Department of Education
- Brooks Allen, California State Board of Education

PANEL 2: LOCAL PERSPECTIVE

- Mr. Chris Evans, Superintendent, Natomas Unified School District
- Mr. Elliott Duchon, Superintendent, Jurupa Unified School District
- Dr. Christine Frazier, Superintendent, Kern County Office of Education

BACKGROUND

AB 97 (Committee on Budget), Chapter 47, Statutes of 2013, and subsequent legislation created the Local Control Funding Formula (LCFF), which consolidated most of the state's categorical programs with the discretionary revenue limit funding to create a new student formula to be phased in over several years.

The LCFF was the result of extensive research and policy work that was proposed by Governor Brown in the 2012-13 budget with his "Weighted Student Formula" and again in 2013-14 with the "Local Control Funding Formula." The Governor advocated for this new formula, arguing that the prior system was overly complex and did not provide sufficient local control for districts to address the particular needs of their students. The LCFF is largely based on the Governor's belief in subsidiarity, the principle that decisions should be made at the smallest level of government or those closest to the people.

In addition to subsidiarity, one of the main principles behind the LCFF is that English learners and low-income students require more attention and resources in the classroom than students who do not have these same challenges. By providing more services (and funding) to these student populations, it is widely believed that this will help to close the achievement gap and help all students perform better.

The LCFF combined most categorical programs with revenue limit funding to create a more simplified formula that is made up of a base grant, supplemental and concentration grants and "add-ons." The cost of the LCFF is much more than the previous formula. However, the Legislature had a fixed amount of Proposition 98 funding. Therefore, at the time of passage, the Administration anticipated it to take eight years to fully implement (by 2020-21). Below describes in more detail how the formula works for school districts.

- Base Grant. Under the LCFF, school districts receive the majority of their funding through a "base grant" based on average daily attendance (ADA) and adjusted for four grade span needs. The grade span adjustments recognize the higher cost of education for higher grade levels.

  Additionally, the formula includes a 10.4 percent increase in the base rate for grades K-3 in order to cover the costs associated with class size reduction (CSR) in these grades. The student to teacher ratio established by the LCFF in grades K-3 is 24 to one, which will be phased-in over eight years. The high school grade span adjustment increases the base grant for grades 9-12 by 2.6 percent, taking into account costs associated with career technical education (CTE).

- Supplemental Grant. The LCFF provides a "supplemental grant" for English learners, low-income and foster youth students. Under the formula, these student groups generate an additional 20 percent of the student's base rate. Students can only qualify for one supplemental grant, meaning that if a student is both an English learner and low-income, they are only counted once. All foster youth are also considered low-income; therefore it is unnecessary to discuss them as a separate group.

  Students are classified as an English learner (EL) if a parent or guardian reports through a home survey that the student's primary language is a language other than English and if their results on the California English Language Development Test (CELDT) show that they are not English proficient. Once classified as EL, the student is reassessed every year using the CELDT until they are considered fluent English proficient. There are no requirements around how long a student can be counted as an EL.

  For LCFF purposes, a student is considered low-income (LI) if they meet the qualification for free or reduced-price meals (FRPM). Students are determined FRPM eligible through an application process sent to the student's home. If a household's income is below 185 percent of the federal poverty line ($43,568 for a family of four), the student is eligible for FRPM. Eligibility is assessed annually and there is no limit on how long a student can be considered LI.

- Concentration Grant. The LCFF also provides a "concentration grant" for districts whose EL and LI student population exceeds 55 percent. These districts will receive an additional 50 percent of the adjusted base grant for each EL and LI student above the 55 percent threshold.

- Add-Ons. Two former categorical programs are treated as "add-ons" to the LCFF. These include the Home-to-School Transportation (HTST) program and the Targeted

Instructional Improvement Block Grant (TIIG). Districts that received categorical funding for these programs in 2012-13 will continue to receive the same amount of funding through this add-on. Districts that did not receive this categorical funding previously will not receive the add-on.

- Economic Recovery Target. Some districts will receive an Economic Recovery Target (ERT) add-on. This add-on is targeted at those districts that would have fared better under the prior funding formula, had the revenue limit deficit factor and categorical funding been fully restored to pre-recession levels. The ERT add-on is calculated by the difference between the amount a district would have received under the old system and the amount a district would receive based on full implementation of the LCFF. However, districts that are in the 90th percentile or above in per-pupil spending under the old system are not eligible to receive the ERT.

  Approximately 130 districts are eligible to receive the ERT add-on. The total cost of the ERT (once fully phased in) is about $62 million. Each year an additional $7.7 million is given to the eligible districts.

- Cost of Living Adjustment. Each year the target base rate will be updated for cost of living adjustments (COLAs), creating a moving target. Until districts reach their target funding level, COLA will be included in their growth funding. This will vary district by district. For example, a district that is close to their LCFF target will receive a smaller amount for COLA than a district that is further away from their target. Once the target funding level is reached, districts will then receive the full COLA each year (assuming that the State has sufficient funds to do so).

LCFF for County Offices of Education
Along with the creation of the LCFF for school districts, the state also created a new formula for county offices of education (COEs), with the same goals in mind. COEs, however, have a two-part formula in recognition that COEs provide two different functions. First, COEs provide support and services for their member districts. Second, they operate alternative schools for students that are incarcerated, on probation, referred by a probation officer, or have been expelled. The COE LCFF provides a grant based on the total number of school districts and number of students within the county. This is meant to cover the support services provided by the COE. The LCFF also provides a grant for COEs to run alternative schools. This grant amount is determined similar to the LCFF formula for school districts, however, the base rate is significantly higher and the supplemental and concentration grants are slightly different. For COEs, supplemental funding generates 35 percent of the base grant (rather than 20 percent for districts) and concentration grants provide 35 percent of the base grant for unduplicated students above the 50 percent threshold (rather than 20 percent of the base grant for unduplicated students above the 55 percent threshold). Although COEs have a two-part formula, they can use the funds for any purpose. COEs are also required to complete a Local Control Accountability Plan, which is submitted to the Department of Education for review.

Accountability and Support
In addition to the LCFF, the 2013-14 budget also established a new system for school accountability. Under the new system, districts and charter schools are required to complete

a Local Control and Accountability Plan (LCAP). The LCAP must include a district's annual goals in each of the eight state priority areas, which include:

- Student achievement
- Student engagement
- Other student outcomes
- School climate
- Implementation of the Common Core State Standards
- Course access
- Basic services
- Parental involvement

The plans must include both district wide goals and goals for specific subgroups. Districts are required to consult with stakeholders on their plans and hold at least two public hearings before adopting or updating their LCAP. Districts were first required to adopt an LCAP by July 1st 2014, which is to be updated every year and adopted every three years. Districts must submit their LCAP to the County Office of Education (COE) for review. The COE can suggest amendments to the district's LCAP, which the district must consider (but are not required to adopt). The COE must approve the district's LCAP by October 8. If the COE does not approve the LCAP, the state will then intervene.

The State Board of Education (SBE) is charged with adopting the template for districts to use in adopting their LCAP, as well as the regulations for how districts can use their supplemental and concentration funds. The SBE adopted an emergency template and spending regulations for districts to use in the first year of adopting their LCAPs in January 2014. These regulations allow for districts that have over 55 percent EL or LI students to use the supplemental and concentration funding on a districtwide basis as long as they identify the services being provided and how those services are serving their EL and LI students. For those districts that have less than 55 percent EL and LI students, the regulations allow them to also use the extra funds for districtwide purposes, but they must also describe how the districtwide services are the most effective use of the funds to meet their goals for their EL and LI students. The regulations also provide a formula for districts to calculate the proportion of their LCFF funds that are generated by EL and LI students.

The SBE adopted the permanent LCAP template and spending regulations at their November 2014 meeting. Both the emergency regulations and permanent regulations adopted by the SBE went through a rigorous public process and many changes were made in response to the public's input. The SBE will continue to update the LCAP template and regulations as needed.

The SBE is also required to adopt new rubrics for assessing a school district's performance by October 1, 2015. These rubrics will be used by COEs and the Superintendent of Public Instruction in order to evaluate how districts are performing in each of the eight state priority areas and determine whether a district is in need of support or intervention.

<u>California Collaborative for Educational Excellence</u>

The new funding formula also created a new system of support. The California Collaborative for Educational Excellence (CCEE) was created in order to provide assistance to school districts that need or ask for help in a particular area. Under the new system, if a school district that does not meet performance expectations in the eight state priority areas, they could be subject to intervention by their COE or the CCEE. Districts that are continuously not meeting performance standards will be subject to intervention by the SBE and State Superintendent of Public Instruction.

The 2013-14 budget provided $10 million to establish this new system of support through the CCEE. The members of the CCEE have been selected and they held their first meeting in February. The CCEE does not have a timeline for when they expect to be fully operational because they are still in the process of finding an Executive Director and hiring staff. Because the role of the CCEE is still being developed, the Governor's budget does not include any ongoing funding for this purpose.

Review of LCFF and LCAP Implementation

The 2014-15 budget required the State Board of Education (SBE), in conjunction with the California Department of Education (CDE) to report to the Legislature regarding the status of implementation of the LCFF. The report required the SBE to report the following information:

1) A description of the implementation roles and responsibilities of CDE, the SBE, the California Collaborative for Educational Excellence, the Fiscal Crisis Management and Assistance Team, and county offices of education for LCFF oversight and technical assistance to local educational agencies.
2) A description of implementation challenges to date and efforts made by state and local entities to address those challenges.
3) Observations of the CDE and the SBE about the first year that local educational agencies completed their LCAPs.
4) The SBE's long-term vision for LCFF support and guidance to the field and which agency or agencies would provide that support and guidance.

This report was released in January 2015. The report lays out general roles and responsibilities for the various entities that are essential to successfully implementing the LCFF. The report notes that the biggest implementation challenge was the timing of the new funding formula. The SBE had a tight timeline to adopt emergency regulations to maximize the amount of time provided for local community engagement and development of the LCAPs in the first year of implementation. The report also highlights that many districts, charter schools and COEs struggled to implement all of these new changes in such a short timeframe. The SBE recognizes that implementation of such a major initiative will take time and is committed to providing continued guidance and support going forward.

An October 2014 report funded by the Stuart Foundation, *Toward a Grand Vision: Early Implementation of California's Local Control Funding Formula*, followed 10 districts in the first year of implementing the LCFF and reviewed more than 40 LCAPs. This report found that overall districts were enthusiastic about the new formula, but were concerned that the state will change the system before it has time to mature. This report also notes that school districts were concerned about timing, capacity issues and plan integration in the first year of implementing the LCFF.

The LAO recently conducted its own review of school district's LCAPs in their report, *Review of School Districts' 2014-15 Local Control Accountability Plan*s. The LAO examined 50

LCAPs in order to evaluate their compliance the LCAP requirements and determine whether LCAPs overall reflected thoughtful strategic planning by districts. The LAO found that although most of the LCAPs they reviewed attempted to comply with many of the LCAP requirements, none complied with every requirement. The LAO also found that districts rarely differentiate between actions that are a continuation of efforts from prior years or new efforts using new funding generated under LCFF. The report also found that districts often failed to provide sufficient information on EL and LI student services.

LAO Recommendations

The LAO makes the following recommendations for improving the transparency and usefulness of the LCAPs:

1) Allow districts to focus their plans on their highest priority areas or areas in need of improvement (identified by the evaluation rubrics), instead of requiring them to address all eight state priority areas.
2) Require districts to distinguish between new and ongoing actions in order to identify which actions are new investments.
3) Continue to monitor the information that districts provide on how they are improving services to EL and LI students.
4) Direct the CDE to provide model LCAPs to districts.

STAFF COMMENTS/QUESTIONS

California is in its second year of implementing the LCFF and districts, charter schools and COEs have completed their first year of developing their LCAPs. It is important for the Legislature to be informed on the status of implementing this new funding and accountability system and if changes are needed. However, it is too early to determine if these reforms will ultimately be successful. The Legislature should be cautious in considering changes to the LCFF and accountability system before it is fully implemented.

<u>Suggested Questions</u>:

- Does the State Board anticipate making additional changes to the LCAP template or spending regulations in the near future?

- Does the LAO believe that the LCAP process was effective in holding districts accountable for their LCFF funding?

- What does the State Board/CDE think about the LAO's recommendation that districts should focus their LCAPs on their high priority areas or areas in need, instead of all eight state priority areas?

Local Panel:

- What implementation challenges have districts and county offices of education encountered in the first two years of LCFF? What support or assistance have districts and county offices received?

- Was the LCAP process useful for local districts and county offices? How did local districts engage their communities in the process? What changes, if any, would improve the LCAP process?

- How have districts and county offices increased or improved services for English learners, low-income and foster youth students?

Staff Recommendation: Information Only.

ISSUE 2: GOVERNOR'S 2015-16 PROPOSAL: LOCAL CONTROL FUNDING FORMULA IMPLEMENTATION FUNDING

The issue for the Subcommittee to consider is the level of funding to provide for implementation of the LCFF for school districts, charter schools and county offices of education (COEs).

The Governor's 2015-16 budget proposes to provide $4 billion for school districts and charter schools to further implement the LCFF. The Governor's budget also includes a slight increase of $1 million for COEs, which are already at their LCFF targets.

PANELISTS

- Megan Stanton-Trehan, Department of Finance
- Carolyn Chu, Legislative Analyst's Office
- Monique Ramos, Department of Education

BACKGROUND

Because the LCFF seeks to provide additional funding for all students and increased funding for EL and LI students, the cost of the LCFF is higher than the previous funding formula. Had the state fully implemented the LCFF for districts in 2013-14, it would have cost approximately $18 billion above the 2012-13 funding level. Given the cost, the LCFF is estimated to be phased in over eight years. New funding for LCFF will be allocated to districts based on their funding "gap," which is the difference between their prior year funding level and their target LCFF funding level. Each district will see the same percentage of their gap closed, but the dollar amount will vary for each district.

The 2014-15 budget provided $4.7 billion toward implementing the LCFF, representing approximately 29 percent of the funding gap. The total amount dedicated to LCFF in 2014-15 was $47 billion.

The Governor's 2015-16 Budget

The Governor's proposed budget provides $4 billion to further implement the LCFF for districts and charter schools. This represents 32 percent of the remaining gap funding needed to reach full implementation of the LCFF and represents a 9 percent increase from 2014-15. The total amount provided for the LCFF in the Governor's plan is $50.7 billion in 2015-16. The total cost to fully fund LCFF this year would be $60.1 billion. The Department of Finance still estimates that the LCFF will be fully funded by 2020-21. However, the Legislative Analyst's Office's November forecast estimated that in 2019-20 (as far as their projections go), the LCFF targets would be 91 percent funded.

The chart below shows the Department of Finance's projections of LCFF funding and gap closure percentage for the five-year window of 2014-15 to 2018-19.

LCFF Gap Closure Estimates					
	2014-15	2015-16	2016-17	2017-18	2018-19
Transition Funding	$ 4,721,970,000	$ 4,048,448,000	$ 2,351,702,000	$ 2,485,418,000	$ 975,800,000
Gap Closure	29.15%	32.19%	23.71%	26.43%	11.31%

Source: Department of Finance

County Offices of Education

Similar to the LCFF for school districts, each COE has a target funding level and all new funding is used to close their gap. The additional cost to fully implement the COE formula in 2013-14 was estimated to be $50 million. The state dedicated $32 million in additional LCFF funding for COEs in 2013-14 and $26 million in 2014-15. The Department of Finance estimates that COEs will reach their target rates in 2014-15.

The Governor's 2015-16 budget provides a total of $1 billion in LCFF funding for county offices of education (COEs), approximately $1 million above the 2014-15 funding level. This is due to minor changes in attendance and applying a COLA for the LCFF rates.

Cost of Living Adjustment

The Governor's budget includes $71.1 million for a 1.58 percent cost-of-living adjustment (COLA) for education programs funded outside the LCFF. These programs include: special education, child nutrition, state preschool, foster youth services, American Indian education centers and American Indian early childhood education programs. The budget also includes $109,000 to provide a COLA for county offices of education.

Foster Youth Services

There are approximately 60,000 students in foster care in California. There has been increased attention on improving academic performance of foster youth in recent years with the adoption of the LCFF. However, there have been concerns raised about the inconsistency in the definition of foster youth under the LCFF and the Foster Youth Services program.

The definition of "foster youth" in the LCFF includes all foster youth, regardless of the living arrangement in which they have been placed by the state. This does not match the definition of "foster youth" in California's Foster Youth Services (FYS) program, a state-administered, county-run supplemental education program. The FYS program is limited to serving foster youth placed in non-relative foster care settings, such as group homes. Because of this narrow definition, the FYS program can only serve about 33 percent of California's foster youth. By aligning the definition of foster youth under the FYS program to the LCFF definition, the FYS program could then serve all foster youth students regardless of their placement. The current FYS budget is approximately $15 million. According to estimates provided by FosterEd, an initiative of the National Center for Youth Law, expanding the definition would cost an additional $20 to $30 million.

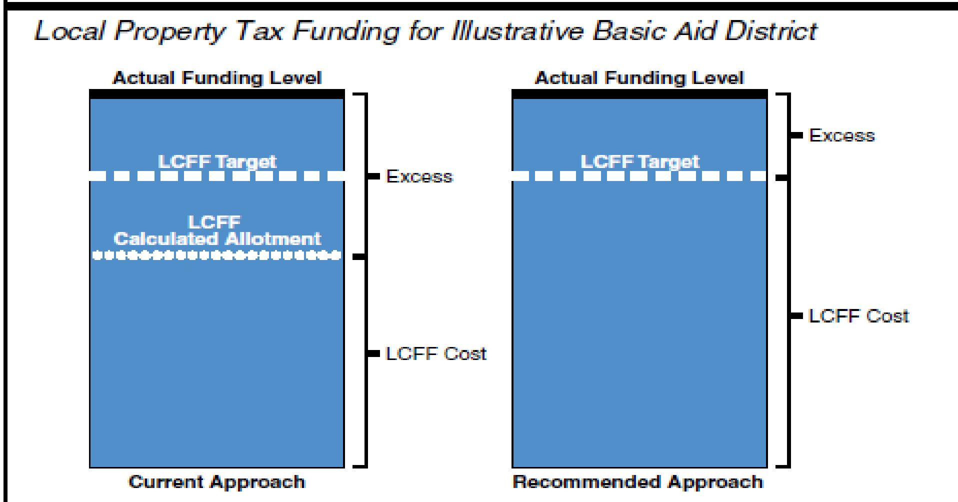
LAO Recommendations

The LAO does not have any concerns with the Governor's proposal to provide $4 billion for districts and charter schools to further implement the LCFF, as it is consistent with the past two years of implementation and supports reaching the target levels as quickly as possible. The LAO makes two recommendations on technical issues related to the LCFF. The LAO recommends the Legislature:

1) Recognize that basic aid districts are already at their LCFF targets. Basic aid districts do not receive state gap funding because they receive sufficient local property tax revenue to meet or exceed their LCFF allotments. However, the State still assumes a hypothetical gap that is closed using property tax revenue. The LAO believes this has the effect of increasing total Proposition 98 LCFF spending beyond the anticipated LCFF General Fund appropriation. Therefore, the LAO recommends counting all local property tax revenue up to a basic aid district's target toward LCFF gap funding (and the Proposition 98 guarantee). As shown in the chart below, this change would recognize that these districts are already funded at or above their LCFF targets.

Figure 19

Two Approaches to Calculating A Basic Aid District's LCFF Cost



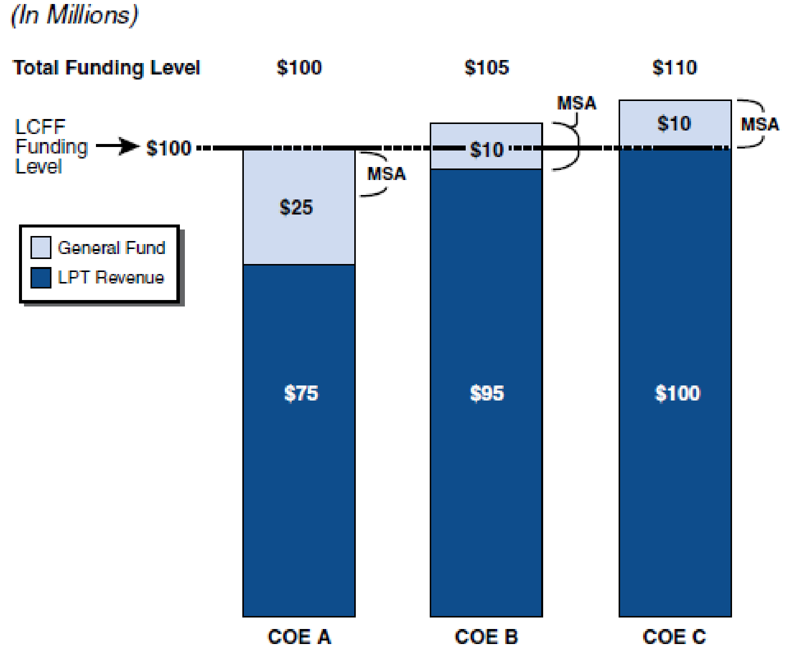
LCFF = Local Control Funding Formula.

Source: Legislative Analyst's Office

2) Make changes to the state's "hold harmless" provisions applied to COE's LCFF funding. The LAO recommends eliminating the minimum state aid provision, which provides additional state funding – beyond the LCFF allotment – for certain COEs, resulting in funding differences across COEs. The chart below illustrates how this provision benefits some COEs more than others. The LAO estimates that this change would free up Proposition 98 resources for other purposes (approximately $40 million in 2014-15 and $60 million in 2015-16).

Figure 22

Minimum State Aid Advantaging Some COEs



MSA = minimum state aid; COE = county office of education; LCFF = Local Control Funding Formula; and LPT = local property tax.

Source: Legislative Analyst's Office

STAFF COMMENTS/QUESTIONS

The Governor's proposed budget makes a significant investment in the LCFF. As a result, districts with higher concentrations of EL and LI students will likely receive a substantial amount of new funding in 2015-16. The Governor's approach is consistent with the Legislature's priorities over the last few years and will make progress toward fully funding the LCFF. Staff recommends holding this issue open pending updated revenue projections at the May Revision. Staff is looking into the technical issues raised by the LAO in their LCFF recommendations.

Suggested Questions:

- Does the Administration anticipate proposing additional funding for LCFF implementation in May, if revenue projections are higher than in January?
- What would be the impact on the Proposition 98 guarantee if the Legislature adopted the LAO's recommendations on calculating LCFF funding for basic aid districts and county offices of education?

- The Governor's budget provides a COLA for certain categorical programs funded outside the LCFF. Why does the budget not provide a COLA for the Home-to-School Transportation program?

- Would the Administration support aligning the definition of foster youth under the Foster Youth Services program with the LCFF definition in order to serve all foster youth, regardless of their placement?

Staff Recommendation: Hold Open.

ISSUE 3: GOVERNOR'S 2015-16 PROPOSAL: SCHOOL FACILITIES

The Subcommittee will hear the Governor's budget proposals related to school facilities. These proposals include:

- Increasing the ability for school districts to finance school facilities projects on their own.
- Creating a new targeted state facilities program for districts with limited local bond capacity.
- Expanding eligibility for the Charter School Facilities Grant program.
- Providing $273 million to retire the state's remaining obligation under the Emergency Repair Program.

PANELISTS

- Juan Mireles, Department of Finance
- Jameel Naqvi, Legislative Analyst's Office
- Monique Ramos, Department of Education

BACKGROUND

School districts rely on statewide General Obligation (G.O.) bonds to raise money to build and remodel school buildings and purchase equipment. Since 1998, voters have approved $35 billion in statewide G.O. bonds for school facilities in California. The last bond that was approved by voters was in 2006 with Proposition 1D. This bond provided a total of $7.3 billion in bond authority for various K-12 facility programs, the largest being the New Construction and Modernization programs. These two core facilities programs currently have no remaining bond authority. However, it is estimated that $1.2 billion in project applications are awaiting funding in these programs. AB 2235 (Buchanan, 2014), the Kindergarten-University Public Education Facilities Bond Act of 2014, would have authorized a modest statewide G.O. bond to be placed on the ballot in November 2014. If passed by voters, this bond would have provided $4.3 billion for construction and modernization of K-12 and higher education school facilities. This legislation passed legislative committees with bipartisan support, but was opposed by the Governor and ultimately stalled.

Districts can also generate funds locally through developer fees, local bonds, certificates of participation, and Mello-Roos taxes. Proposition 39 in 2000 lowered the voter threshold for local bonds from two-thirds to 55 percent. Since the passage of Proposition 39, about 80 percent of school district bond measures have been approved. Through this process, school districts have authorized a total of at least $75.2 billion in local bonds for school facilities. School districts have also levied about $9.4 billion in developer fees since 1998.

The Governor has shown strong interest in changing how the state funds school facilities in his last two budgets, but has not provided a specific proposal. The Governor's budget summary notes a number of problems with the current school facilities program, including that the current program is overly complex, too costly for the state, and does not provide sufficient local control.

Governor's 2015-16 Budget

The Governor's budget does not provide a specific proposal for replacing the current school facilities program. Instead, the Governor makes some general recommendations for providing school districts with additional flexibility and tools to fund facilities on their own and suggests the state provide support only for those districts that do not have sufficient local bond capacity. The Governor has not proposed specific language related to these recommendations. According to the Administration, these suggestions and recommendations are simply meant to start a conversation about how the state should fund school facilities in the future.

The Governor's budget makes recommendations to better allow school districts to fund school facilities on their own. These recommendations include:

- <u>Expand Local Funding Capacity.</u> The Governor suggests increasing the caps on local bonded indebtedness and local property tax overrides. While school districts can pass local bonds with 55 percent approval, limits on the tax rate levied to repay specific bond measures and caps on total district bonded indebtedness can limit a districts capacity to raise sufficient funds at the local level. Under current law, the outstanding debt for a unified district cannot exceed 2.5 percent of assessed value in the district. For elementary or high school districts, their outstanding debt cannot exceed 1.25 percent. However, a district can seek a waiver from the State Board of Education to exceed these limits (and the State Board often grants these types of waivers). Additionally, districts that issue bonds under the Proposition 39 requirements cannot levy taxes to repay those bonds that exceed specified rates ($60 for unified districts and $30 for elementary and high school districts per $100,000 of assessed value per election). The Governor argues that these caps have not been adjusted since 2000, and at a minimum should be increased by the rate of inflation since 2000.

- <u>Restructure Developer Fees.</u> The Governor proposes modifying how much districts can levy in developer fees. Currently, districts can levy fees on new developments within the district to fund school facilities. These fees are determined by three levels. The first level is based on a cost per square foot of the buildings in the new development. The second and third levels are based on 50 to 100 percent of the cost to construct school facilities to accommodate enrollment growth generated by the development. The Governor proposes that the state establish one developer fee level for all districts and cap the amount of fees at around 75 percent of project costs.

- <u>Expand Uses of Routine Restricted Maintenance Funding.</u> The Governor's budget recommends allowing districts to use funds currently restricted for routine maintenance for any facility related purpose. Current law requires schools who have participated in the School Facility Program to deposit three percent of their general fund expenditures into a restricted account used for routine maintenance of facilities for 20 years. The Governor proposes allowing districts to pool these funds over multiple years for modernization and new construction projects.

New Targeted State Facilities Program

The Governor also proposes creating a new state facilities program that would target districts that cannot raise sufficient local bond funds due to their low per-student assessed value. The proposal would also prioritize funding based on pressing health and safety and severe overcrowding projects. The Governor proposes creating a sliding scale to determine the state's share of project costs based on local capacity to finance projects, but does not provide any details on how this cost sharing structure would be determined. Additionally, the Governor's budget does not provide any funding for a new state funded facilities program.

Charter School Facility Grant Program

The Charter School Facility Grant Program is a noncompetitive program that provides assistance with facilities rent and lease expenditures for charter schools that meet specific eligibility criteria. The grant program was enacted in 2002 to reimburse charter schools for rental and lease costs in low-income areas. This program is meant to serve schools and communities with high proportions of economically disadvantaged students. Eligible applicants must have at least 70 percent of students enrolled at the charter school who are eligible for free or reduced-price meals or the charter school must be physically located in an elementary school attendance area where at least 70 percent of students enrolled are eligible for free or reduced-price meals. In this case, the charter school must also give a preference in admissions to students who reside in the elementary school attendance area. The charter schools are funded $750 per unit of classroom-based average daily attendance, up to 75 percent of its annual facilities rent and lease costs for the school.

The 2013-14 budget transferred the administration of the Charter School Facility Grant Program from the California Department of Education to the California State Treasurer's Office - California School Finance Authority (CSFA). In 2013-14, CSFA awarded about $70 million in funding to 313 charter schools (about 28 percent of charter schools received a grant). The state provided $92 million for the program in 2014-15.

The Governor's Budget includes a $50 million augmentation to expand eligibility for the Charter School Facility Grant Program. The proposal would allow charter schools serving 55 percent or more low-income students to apply for the grant, which aids charter schools in paying lease expenditures. (Currently, charter schools with 70 percent or more low-income students are eligible to apply for the grant.)

Emergency Repair Program

The Emergency Repair Program (ERP) was established through the *Williams v. California* settlement. The *Williams v. California* lawsuit, originally filed in 2000, charged that the state had failed to give thousands of children the basic tools necessary for their education, including "inadequate, unsafe, and unhealthful facilities." The 2004 settlement included increased accountability measures, extra financial support, and other help for low-performing schools. The state agreed to provide $800 million for critical repair of facilities in future years for the state's lowest-performing schools. These low-performing schools were defined as those that were in the bottom three deciles of the 2006 Base Academic Performance Index (API) rankings. To date, the state has provided $527 million toward this ERP obligation.

The 2014-15 budget provided $188.1 million in one-time Proposition 98 General Fund to the ERP. The funds would be made available for districts that submitted applications and were approved for ERP funding in 2008. Funding is allocated to districts in the order in which they were originally submitted and approved. Over 100 districts have approved ERP projects on file at over 700 school sites. These projects include emergency repairs such as replacing heating and air conditioning systems, plumbing, electrical and repairing roofs. Many of these projects may have already been completed, however the Office of Public School Construction does not have the authority to survey districts about the status of their projects and whether they have completed these projects since the time the applications were approved.

The Governor's 2015-16 budget proposes to provide $273.4 million in one-time funding for the Emergency Repair Program, retiring the state's remaining obligation under the Williams settlement. Of this amount, $163 million is from the state's "settle-up" payment and a $110 million reappropriation of unspent funds from prior years. This final payment is part of the Governor's proposal to eliminate the "wall of debt."

LAO Recommendations on School Facilities

The LAO agrees that the current school facilities program is flawed. The LAO recommends replacing the current system with a new grant program. Specifically, they recommend the Legislature:

1) Establish an annual per–student facility grant.
2) Base the grant on the replacement value of existing school buildings and an estimate of their average useful life.
3) Adjust the grant to reflect local resources, with larger grants for districts with lower property wealth.
4) Adjust the grant during the transition to account for existing state debt service incurred on the district's behalf.
5) Provide one-time funds to address the existing backlog of facility projects.
6) Require school districts that receive grant funds to adopt five–year facility accountability plans.

STAFF COMMENTS/QUESTIONS

What is the state's role in financing school facilities? For the past few years the Governor has criticized the current school facilities program and questioned what role, "if any," the state should play in funding school facilities. The Governor's budget includes recommendations for increasing the ability for local school districts to access financing on their own, which may have some merit. However, it is unlikely that these reforms alone will enable districts to fully fund their facility needs. The Governor also proposes to create a new state facilities program targeted at those districts that do not have sufficient local bond capacity. This proposal is lacking many important details. Most importantly, the budget does not include any funding for this new program.

The Governor's approach to shift responsibility of funding school facilities to the local school district level is problematic. School facilities are an essential component to the constitutional right to equal educational opportunity, which was brought up in the *Williams vs. State of California* lawsuit. The Legislature should consider California's legal obligation to provide students with an adequate and equitable education when considering what role the state should play in school facilities funding.

Additionally, school facilities have historically been funded outside of the Proposition 98 minimum guarantee. Shifting this new cost into Proposition 98 will divert resources away from other educational needs and further begs the question of whether California is providing adequate funding for schools.

Staff acknowledges that there may be flaws in the current school facilities program, including that the program is overly complex and allocates funding on a first-come, first served basis. However, instead of eliminating the program, which has been successful in funding the state's school facility needs since 1998, the state could streamline the process and provide a more equitable methodology for allocating resources. Staff recommends holding this issue open to allow for further discussion on how the state should fund school facilities in the future.

Charter School Facility Grant Program
The Governor's budget includes $50 million to expand eligibility for the Charter School Facility Grant Program. The intent of this program is to provide additional funding for rent and lease costs for charter schools serving low-income students. However, many charter schools are eligible for the program regardless if they actually serve low-income students. Of the 313 charter schools that were eligible for funding in 2013-14, 229 were eligible due the number of low-income students enrolled at the school and 84 were eligible because they are located within an attendance area that serves low-income students. These 84 charter schools are required to self-certify that they prioritize enrollment for students residing in that attendance area. The Legislature may wish to further review the current eligibility criteria before expanding this program.

The Department of Finance indicates that this proposal was put forth as part of the larger school facilities proposal because charter schools would not be eligible under the Governor's proposal for a new targeted school facilities program. Staff recommends considering this proposal as part of the larger school facilities conversation.

Emergency Repair Program
Staff agrees with the Governor's approach to pay off the remaining ERP obligation, further eliminated the debt owed to schools. However, staff recommends holding this issue open pending the May Revision.

Suggested Questions:

- One of the reasons the Governor does not support a new school facilities bond is due to the cost of the debt service to the General Fund. However, the Governor supports the use of general obligation bonds for other essential state infrastructure projects, such as water storage and conveyance projects. Why are school facilities treated differently?

- What are the implications of increasing developer fees for school facilities?

- What are the potential impacts of allowing districts to use funds currently restricted for routine maintenance for any facility related purpose? Are school's current routine maintenance needs being met?

- Has the Administration done any cost estimates for what a new targeted state school facilities program would cost? What would be the eligibility criteria?

Staff Recommendation: Hold Open.

ISSUE 4: GOVERNOR'S 2015-16 PROPOSAL: PROPOSITION 39 ENERGY EFFICIENCY PROJECTS

The Subcommittee will consider the funding levels for the Proposition 39 energy efficiency programs for California's schools and community colleges.

PANELISTS

- Juan Mireles, Department of Finance
- Jameel Naqvi, Legislative Analyst's Office
- Dan Troy, Community College Chancellor's Office
- Monique Ramos, Department of Education

BACKGROUND

The California Clean Energy Jobs Act (Proposition 39) passed by voters in 2012, required most multistate business' to determine their California taxable income using a single sales factor method, in turn, increasing the state's corporate tax revenue. This measure established a new state fund, the Clean Energy Job Creation Fund, which is supported by half of the new revenue raised by the mandatory single sales factor for multistate businesses. The initiative directs monies deposited in this fund to be used to support projects that will improve energy efficiency and expand the use of alternative energy in public buildings.

Governor's 2015-16 Budget

The Governor's 2015-16 budget includes a total of $736 million in Proposition 39 revenue. Of this amount, $368 million is dedicated to schools and community colleges for energy efficiency purposes. The Governor proposes to allocate this funding for the following purposes:

- $320.1 million to K-12 schools and $39.6 million to community colleges for energy efficiency project grants.
- $5.3 million to the Conservation Corps for technical assistance to K-12 school districts.
- $3 million to the Workforce Investment Board for job training programs.

<u>K-12 Project Grants.</u> The 2013 Budget Act and accompanying legislation designated 89 percent of Proposition 39 funds for K-12 schools to be allocated by the California Department of Education (CDE). Of this funding, 85 percent is to be distributed on the basis of student average daily attendance (ADA) and 15 percent is distributed on the basis of students eligible for free and reduced price meals. Minimum grant amounts were established for LEAs within the following ADA thresholds:

- $15,000 for LEAs with ADA of 100 students or less.
- $50,000 for LEAs with ADA of 100 to 1,000 students.

- $100,000 for LEAs with ADA of 1,000 to 2,000 students.

The California Energy Commission (CEC), in consultation with the CDE, Chancellor's Office and the Public Utilities Commission, is required to develop guidelines for contracts with LEAs. The CEC released these guidelines in December 2013.

In order to receive an energy efficiency project grant, LEAs must submit an expenditure plan to the CEC outlining the energy projects to be funded. The CEC will review these plans to ensure they meet the criteria set forth in the guidelines. The CDE will distribute funding to LEAs with approved expenditure plans. During the first year of funding, LEAs could also request funding for planning prior to submission of the plan.

Since the passage of Proposition 39, a total of $660 million has been allocated to the Department of Education for energy efficiency projects. As shown in the chart below, a total of $223.9 million has been provided to local educational agencies (LEAs) for planning and project grants ($153.6 million for planning grants and $70.3 million for approved energy efficiency projects). The Department of Education has a remaining balance of $436.1 million that has not yet been distributed to schools. Of this remaining balance, approximately $100 million in additional projects has been approved by the CEC and will be allocated to the 572 LEAs in future payments. The Department of Education indicates that approximately 80 percent of approved energy efficiency projects are considered multi-year projects; therefore, funding would be allocated over multiple years.

Proposition 39 Clean Energy Jobs Act Funding (In millions)
For 2013-14 and 2014-15 fiscal years as of February 2015

Total Allocation	$660.0	
Planning funds paid	$153.6	(1,645 LEAs)
Energy projects paid	$ 70.3	(216 LEAs)
Total Payments	$223.9	
Remaining balance	$436.1	

Source: California Department of Education

California Community Colleges. Most California Community Colleges have taken advantage of pre-existing energy-efficiency partnerships they had with investor owned utilities to spend Proposition 39 funds. Planning for energy efficiency projects at most campuses was already complete when Proposition 39 funding became available. Funding has been distributed to colleges on a per-student basis under guidelines developed by the Chancellor's Office in conjunction with the California Energy Commission.

The chart below indicates uses of the funding at community colleges in the first two years of Proposition 39.

Project Type	**Number of Projects**	**Percentage of Total Projects**
Lighting	266	50%
HVAC	128	24%
Controls (Upgrading lighting/HVAC controls for better effiency)	81	15%
Retrocommissioning (Building tune-ups to optimize control systems)	19	3.5%
Technical Assistance	4	1%
Self-Generation	3	1%
Monitoring-Based Commissioning (Installing metering systems to better track energy usage)	13	2%
Other	19	3.5%
Total Projects	**532**	**100%**

Source: California Community College Chancellor's Office

The Chancellor's Office reports that in the first two years, community colleges have spent $70.4 million on these projects and have achieved the following savings:

- $11.2 million in annual energy costs savings
- 78 kilowatt-hours annual savings
- 1,505 therms annual savings

The system has also spent about $10 million of its Proposition 39 funding on workforce development programs related to energy efficiency. The funding has been spent largely on equipment, curriculum development and professional development for faculty in energy efficiency certificate and degree programs.

The Governor's Budget proposes $39.5 million in Proposition 39 funding for community colleges in 2015-16. The Chancellor's Office reports that districts have already submitted 300 energy efficiency projects and 11 solar projects, with a total cost of $77.7 million. The third year will focus more on larger-scale, more comprehensive projects with higher energy savings.

STAFF COMMENTS/QUESTIONS

Staff has no concerns with the Governor's proposed funding for Proposition 39 energy efficiency programs. Staff recommends holding this issue open pending updated revenue estimates in May.

Suggested Questions:

- What are the most common types of energy efficiency projects that have been submitted by LEAs?
- When will K-12 schools be able to realize and quantify energy and cost savings achieved from Proposition 39 energy efficiency projects?
- For the Chancellor's Office, the focus in the first few years has been on smaller-scale efficiency projects like replacing lighting systems. What kinds of larger-scale projects are possible in the next few years?

Staff Recommendation: Hold Open.