

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assemblymember Al Muratsuchi, Chair

TUESDAY, MARCH 4, 2014

9:00 AM - STATE CAPITOL ROOM 444

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ITEMS TO BE HEARD

6110 DEPARTMENT OF EDUCATION

ISSUE 1: OVERVIEW AND IMPLEMENTATION OF THE LOCAL CONTROL FUNDING FORMULA

The 2013-14 budget fundamentally changed the way California allocates funding to schools through the Local Control Funding Formula (LCFF). The Subcommittee will hear an update from stakeholders on how the LCFF is being implemented at the state and local levels.

PANEL 1: STATEWIDE PERSPECTIVE

- Carolyn Chu, Legislative Analyst's Office
- Monique Ramos, Department of Education
- Elisa Wynne, State Board of Education

PANEL 2: LOCAL PERSPECTIVE

- Dr. Donald Stabler, Deputy Superintendent, Torrance Unified School District
- Dr. Rick Miller, Superintendent, Santa Ana Unified School District
- Aida Buelna, Superintendent, Esparto Unified School District
- Tom Armelino, Superintendent, Shasta 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 phased in over eight 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 strongly for these proposals, 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 in turn, 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, therefore the Administration anticipates it to take eight years to fully implement. Below describes in more detail how the formula works.

- 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 (FEP). 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. 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 add-on is \$24 million in ongoing funding, which will be paid to eligible districts over the eight year implementation timeline (\$3 million in 2013-14, \$6 million in 2014-15 and so on). The ERT is a fixed amount and will not be recalculated each year.

- 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, estimated to be in 2020-21, 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).

Accountability

In addition to the new 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 must adopt an LCAP by July 1st 2014, which is to be updated every year and adopted every three years. A district then 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 is also required to adopt new rubrics for assessing a school district's performance by October 1, 2015.

Recent SBE Actions. On January 16th, 2014 the SBE adopted the emergency LCAP template and emergency regulations guiding the use of supplemental and concentration funding. The SBE's proposed regulations were controversial because it was unclear whether the supplemental and concentration funding under LCFF would actually be spent on the students generating the funding. The emergency regulations were adopted after heated debate and changes to the original proposed regulations.

The emergency 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 should be used on EL and LI students. The SBE is expected to adopt permanent regulations at their March 2014 board meeting.

Support and Intervention

The new funding formula also created a new system of school district support and intervention. The California Collaborative for Educational Excellence (CCEE) was created in order to provide assistance to low-performing school districts. Under the new system, if a school district that does not meet performance expectations in the eight state priority areas, they will be subject to intervention by their County Office of Education 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 (SPI).

The 2013-14 budget provided \$10 million to establish this new system of support through the CCEE. CDE has not yet started this work. They are expected to go out to bid for a contractor this spring. The Administration is proposing to extend the use of these funds until June 30th, 2015. Because the number of districts that will need assistance is unknown and the role of the CCEE is still unclear, the cost of the new support and intervention system going forward has yet to be determined. The Governor's Budget does not include ongoing funding for the CCEE, but the Administration will be considering ongoing funding as the system is further developed.

STAFF COMMENTS/QUESTIONS

The LCFF made significant changes to California's school funding system, impacting all schools across the state. It is important for the Subcommittee to be informed about the impact of LCFF and how it is being implemented at the state and local levels.

Given that the work around the state's new intervention system has not yet been started, staff recommends the Subcommittee ask CDE to report back in May on the status of the CCEE.

Suggested Questions:

- Is the LCAP enough in preventing abuses of local control? What are the consequences if a district does not follow the goals set out in their LCAP?
- How will the emergency regulations adopted by the State Board of Education ensure that the supplemental and concentration dollars will follow the students it is intended to serve?
- When does CDE expect the CCEE to be fully operational? Has this intervention model been used in other states?
- How are districts informing parents about the LCFF and involving them in the LCAP process?
- What challenges have districts faced so far in implementing the LCFF? What support has been provided from their county offices and CDE?

Staff Recommendation: Direct CDE to provide a verbal update on the California Collaborative for Educational Excellence (CCEE) in May.

ISSUE 2: GOVERNOR'S 2014-15 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 2014-15 Budget proposes to provide \$4.5 billion for school districts and charter schools and \$25.9 million for COEs for implementation of the LCFF.

PANELISTS

- Chris Ferguson, Department of Finance
- Carolyn Chu, Legislative Analyst's Office
- Monique Ramos, Department of Education

BACKGROUND

Because the LCFF provides significant new funding for all students, as well as for EL and LI students without taking funding away from other 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. The cost to fully implement the LCFF in 2014-15 is approximately \$15.9 billion. 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 2013-14 budget provided \$2.1 billion toward implementing the LCFF, representing approximately 12 percent of the funding gap. The total amount dedicated to LCFF in 2013-14 was \$41 billion.

The Governor's 2014-15 Budget. The Governor's Budget provides \$4.5 billion in Proposition 98 General Fund toward implementing the LCFF for school districts and charter schools. This will bring schools approximately 28 percent closer toward their LCFF target, and is 10.9 percent above the 2013-14 spending level. Under the Governor's proposal, the total amount of LCFF funding for school districts and charter schools in 2014-15 is estimated to be \$45.7 billion. This includes \$32.5 billion in Proposition 98 General Fund and \$13.2 billion in local property tax revenue.

Economic Recovery Target. Also included in the Governor's proposed funding for LCFF is \$6 billion for the Economic Recover Target (ERT) payment provided to districts that would have fared better under the old funding formula. The ERT was created to ensure that districts that do not have high concentrations of EL and LI students will still be restored to their pre-recession level of funding.

County Offices of Education under LCFF

The 2013-14 budget also implemented a new LCFF for County Offices of Education (COE) that is allocated in two parts. The first part provides funding for COEs to provide support and services to local educational agencies (LEAs). The second part provides funding to COEs for alternative education services directly to students that have been expelled, incarcerated, or on probation. 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 2013-14 budget provided \$32 million toward LCFF implementation for COEs, equating to almost two-thirds of the funding needed to reach their target. Because it is far less expensive to fully fund the LCFF for COEs, they will reach their target funding level much sooner than school districts and charter schools.

The Governor's 2014-15 Budget. The Governor's Budget dedicates \$25.9 million in Proposition 98 General Fund for COEs for LCFF implementation. The administration estimates that this additional funding will allow COEs to reach full implementation of the LCFF in 2014-15.

Under the Governor's proposal, the total amount of LCFF funding for COEs in 2014-15 is estimated to be \$1.1 billion. This includes \$700 million in Proposition 98 General Fund and \$400 million in local property tax revenue. Of this funding, approximately \$450 million is generated for county operations, \$400 million for alternative education and \$178 million for the "hold harmless" provision included in the LCFF. Under the formula, COEs will also receive \$33 million for the Home-to-School Transportation program. For the most part, COEs can use this funding for any educational purpose (with the exception of transportation funding and Regional Occupation Centers through 2014-15).

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 2014-15. Staff agrees with the Governor's approach to provide significant funding for LCFF. However, staff recommends holding this issue open until the May Revision in order to have the most up to date revenue projections.

Suggested Questions:

- Given the substantial cost to fully fund LCFF, is the Administration's timeline for full implementation realistic?
- Does the LAO agree with the Administration's estimated timeline for full implementation of LCFF?
- What percentage of the "gap" does the Administration anticipate will be funded in 2015-16 and subsequent years to reach full implementation?

Staff Recommendation: Hold open pending the final budget package.

ISSUE 3: GOVERNOR'S 2014-15 PROPOSAL: CREATING AN AUTOMATIC FORMULA FOR LCFF FUNDING

The issue for the Subcommittee to consider is whether to set in statute the percentage of Proposition 98 funding to be dedicated toward the LCFF, until the formula is fully implemented.

PANELISTS

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

BACKGROUND

Under current law, the prior year LCFF amounts are continuously appropriated, meaning that even without an approved state budget, school districts will continue to receive the same amount that they received in the prior year. This is similar to the way that revenue limits worked under the previous funding formula. Having a continuous appropriation was especially important during the years when California was perpetually late in passing a budget (prior to the passage of Proposition 25 in 2010).

The Governor's Budget proposes to set in statute a specific percentage of annual Proposition 98 funding to be automatically dedicated to the LCFF each year. Specifically, the Governor proposes to provide 76 percent of the total Proposition 98 guarantee for LCFF purposes in 2014-15, and 79 percent in 2015-16 and in subsequent years until the LCFF is fully implemented. Once full implementation of LCFF is reached, the Legislature would retain discretion over Proposition 98 expenditures. According to the LAO, approximately 86 percent of K-12 Proposition 98 funding was provided through the LCFF in 2013-14.

LAO Recommendation

The LAO has raised concerns with this proposal due to the fact that it would restrict the Legislature's discretion to appropriate funding and make key budget decisions. Given this loss of authority, the LAO recommends the Legislature reject this proposal.

STAFF COMMENTS/QUESTIONS

Staff agrees with the LAO's concerns with the Governor's proposal. Although dedicating the majority of Proposition 98 funding for the LCFF has merit, the Legislature should retain its authority to make spending decisions through the budget process each year. Under this proposal the Legislature would be limited in creating new programs or augmenting existing programs outside the LCFF. For example, if the Legislature wanted to make another

investment in common core implementation or equalize the Home-to-School Transportation program, it could be restricted under this statutory requirement.

Given that this is the first year of implementation of the LCFF, and the accountability and intervention systems are still being developed, it is too soon to know if local districts will make wise spending decisions and improve outcomes, or if the state will ultimately have to intervene to provide stricter accountability. This proposal could create an unnecessary obstacle in order for the Legislature to intervene and dedicate funding for purposes outside of the LCFF, if needed.

In addition, the state has a long way to go to reach full implementation of LCFF. The Administration estimates full implementation will be reached in 2020-21. However, this is largely dependent on revenues. The Legislature should consider the potential long term impacts of this proposal. Staff recommends holding this issue open for further consideration.

Suggested Questions:

- If revised revenue projections come in higher for 2014-15, how will this proposal impact how that additional funding can be used? Would the majority of new funding be required to be provided for LCFF? What is the impact if revenues come in lower?
- Given that the Legislature passed the LCFF last year and is committed to making LCFF funding a priority, is this statutory requirement necessary? Additionally, is another formula within the already complicated Proposition 98 necessary?
- What would be the budgetary impact of this proposal if revenues were to decline significantly in future years, prior to full implementation of the LCFF?

Staff Recommendation: Hold open.

ISSUE 4: HOME TO SCHOOL TRANSPORTATION: LAO RECOMMENDATIONS

The Subcommittee will consider potential options for reforming the Home-to-School Transportation (HTST) program. The LAO will present their report, *Review of School Transportation in California*, which provides three recommendations for the Legislature to consider.

PANELISTS

- Kenneth Kappahn, Legislative Analyst's Office
- Monique Ramos, Department of Education
- Ed Hanson, Department of Finance

BACKGROUND

Chapter 47, Statutes of 2013 (AB 97, Committee on the Budget) requested that the LAO review and make recommendations to the Legislature on the state's approach to funding school transportation. The LAO released their report on February 25th, 2014.

Who uses school transportation?

According to statewide data from 2011-12, approximately 12 percent of California students ride the bus to school on a daily basis. The number of students using school transportation has been declining for decades and continues to decline due to factors such as urbanization. Additionally, California does not require schools to provide transportation; therefore, services vary across districts. (Federal law does require the transportation of certain groups of students, such as students with disabilities.) Districts are incentivized to provide transportation for students because schools are funded based on a student's average daily attendance (ADA). If students do not have reliable transportation to school, they are more likely to be absent, resulting in funding reductions for schools.

Cost of school transportation

The LAO report revealed that school districts reported spending \$1.4 billion on transporting students in 2011-12. This equates to an average of \$240 per-pupil, however, per-pupil spending on transportation varies by district. The majority of transportation costs are funded through a district's unrestricted funding and the HTST program. Some districts also use federal funds or charge fees to help cover the cost for providing transportation to students.

Home-to-School Transportation Program

The Home-to-School Transportation (HTST) program is a categorical program, which totaled \$491 million in 2011-12, covering approximately 35 percent of district's transportation costs. A total of 890 school districts and 38 COEs receive HTST funding. The program was established in 1947 and has undergone a number of changes since then. In the early 1980's HTST funding was frozen in response to Proposition 13. School districts were essentially "locked-in" to their funding rate, despite enrollment growth or new districts that wanted to be included in the program. This change contributed to the historical inequities that exist in the HTST program. For example, all of the state's 1,100 charter schools and at least 20 school districts receive no HTST funding because they did not participate in the program when these rates were locked-in. In addition, the HTST program was cut by 20 percent in 2008-09 due to the state's budget deficit.

As discussed earlier, the 2013-14 budget made comprehensive reforms to the school funding system through the LCFF. The LCFF consolidated the majority of categorical programs into the discretionary funding for Local Educational Agencies (LEAs), but maintained the HTST program outside of the new formula. Any district that received HTST funding in 2012-13 will receive the same amount going forward. The budget agreement also included a "hold harmless" for JPAs, which requires districts that provided a portion of their HTST funding to a JPA to continue to provide that same amount through the 2014-15 fiscal year.

During last year's budget process, the Legislature recognized the inequities in the HTST program and asked the LAO to review and make recommendations for improving the school transportation system.

LAO Recommendations

The LAO provides three recommended options for improving the state's school transportation system.

Option 1: Fund school transportation within LCFF. Under this option HTST funding would be consolidated into the LCFF appropriation, providing complete discretion to districts on the level of transportation services to provide. The LAO argues that this option would treat HTST consistent with how most other categorical programs were treated under LCFF. The state could implement this new approach gradually by continuing to allocate the same amount of HTST funds to all districts, but counting the funding toward each district's target funding level.

This option would result in a decrease in the target funding level for those districts that currently receive HTST funds.

Option 2: Fund only extraordinary transportation costs. Under this approach, HTST funding would also be consolidated into the LCFF appropriation, but the state would provide additional funding to districts with extraordinary transportation costs. The state could establish a threshold for what would be considered extraordinary transportation costs and fund a portion of the costs above that threshold. For example, the state could set a threshold of 8 percent of a district's budget and agree to pay 75 percent of the excess costs. Since approximately 90 percent of districts spend less than 8 percent on transportation costs, the cost under this example would be roughly \$10 million. By funding only a portion of costs above the threshold, districts will be more likely to run efficient programs.

Option 3: Fund a share of LEA's transportation costs. This option would create a new formula that reimburses all districts for a portion of their transportation costs. The LAO recommends that the state's share be between 35 and 50 percent, to ensure transportation programs are being run efficiently. The current HTST program covers an average of 35 percent of transportation costs statewide; therefore, setting the reimbursement rate at 35 percent would bring everyone to the state average. Covering 50 percent of the costs would provide additional funding to more than half of all districts, but would also be more costly. Under this option, the costs would likely grow annually with inflation and increased service costs.

The state could change the funding formula but include a "hold harmless" provision to ensure that every district continues to receive at least what they do now. According to the LAO, if the state were to fund 35 percent of district's transportation costs, and hold all districts harmless, the estimated cost would be \$120 million in additional state funding. If the state wanted to provide 50 percent of transportation costs, the cost would increase to roughly \$260 million. The chart below shows the various options for creating a new funding formula and the estimated costs.

Cost of New Formula Depends on State Share

(In Millions)

State Share	Costs			Additional State Funding ^b
	New Formula	Hold Harmless ^a	Total	
35%	\$490	\$120	\$610	\$120
40	560	90	650	160
45	630	70	700	210
50	700	50	750	260

^a Cost of providing every district with its 2012-13 funding level if greater than how much it would receive under the new formula.

^b Amount required beyond current state appropriation for Home-to-School Transportation.

Source: Legislative Analyst's Office

STAFF COMMENTS/QUESTIONS

The purpose of the LCFF was to create a more simplified and fair funding formula that treats similar districts equitably. The HTST program is a departure from these principles, which was discussed at length during last year's Subcommittee hearings on LCFF.

One of the essential principles of the LCFF, however, was to hold districts harmless and ensure that no district received less than they did the year before. This was one reason why the Legislature decided to maintain the HTST program as a separate add-on. If the Legislature wanted to reform the school transportation system in order to make it more equitable for all districts, while also maintaining the principle of holding all districts harmless, additional funding for the HTST program would be required.

Issues for the Assembly to consider:

- Should the Legislature continue to fund transportation costs outside of the LCFF? Will districts continue to provide adequate transportation regardless?
- If the Legislature were to change the HTST funding formula, should districts be held harmless? What about districts who receive a HTST allocation that covers more than 60 percent of their costs (25 percent of districts)? Should they also be held harmless?
- Should the Legislature provide additional ongoing funding for transportation purposes, or would this funding be better spent on other purposes?

Related Legislation: SB 1137 (Torres) was introduced on February 20th, 2014. This bill would increase the apportionment for school districts and others providing school transportation services to 50 percent of total expenditures, phased in over 6 years. The bill would also hold those districts harmless that currently receive transportation funding above this amount and would provide annual cost-of-living adjustments.

Suggested Questions:

- Of the three options, what would be the LAO's preferred option for reforming HTST?
- Who are the "winners" and "losers" under the current system? If no changes to the HTST program are made, what will be the impact on these districts over time?
- What is the Administration's position on the LAO's recommendations?
- Does CDE support reforming the HTST program? Which option would CDE prefer?

Staff Recommendation: Information only.
