

AGENDA**ASSEMBLY BUDGET SUBCOMMITTEE NO. 2
ON EDUCATION FINANCE****Assemblymember Susan Bonilla, Chair****TUESDAY, APRIL 9, 2013****9:00 AM - STATE CAPITOL ROOM 444****ITEMS TO BE HEARD**

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ISSUE 1	GOVERNOR'S 2013-14 PROPOSAL: LOCAL CONTROL FUNDING FORMULA: LAO OPTIONS FOR RESTRUCTURING THE K-12 SCHOOL FINANCE SYSTEM	2
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ITEMS TO BE HEARD

6110 DEPARTMENT OF EDUCATION

ISSUE 1: GOVERNOR'S 2013-14 PROPOSAL: LOCAL CONTROL FUNDING FORMULA: LAO OPTIONS FOR RESTRUCTURING THE K-12 SCHOOL FINANCE SYSTEM AND DATA ANALYSIS
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The Subcommittee heard the Governor's Local Control Funding Formula proposal on March 12, 2013 and held the issue open to allow for further discussion.

The focus of this hearing is to consider various options for restructuring the K-12 education finance system. The Legislative Analyst's Office (LAO) will provide a handout and walk the Subcommittee through some options to consider.

This hearing also provides the Subcommittee with an opportunity to follow up on questions raised during the March 12th hearing related to the Governor's proposal.

Finally, during the March 12th hearing, the chair requested the Department of Finance (DOF) to provide the Subcommittee with data demonstrating how districts would fair under existing law as compared to the Governor's proposal. The Department of Education (CDE) also recently released data comparisons of the LCFF with existing law. The Subcommittee will have an opportunity to review and discuss each data set with DOF and CDE.

Options for Restructuring the K-12 Education Finance System. According to the LAO report: *Restructuring the K-12 Funding System*, adopting the Governor's proposed formula is not the only way to improve the existing K-12 funding system. The Legislature could opt to modify various components of the Governor's proposal or opt for a somewhat different allocation methodology. A wide variety of restructuring approaches still would meet the guiding principles of simplicity, transparency, rationality, and flexibility in K-12 funding.

The LAO will provide the Subcommittee with a handout that will walk through several options to consider should the Legislature choose to restructure the existing K-12 education finance system. These options include:

- 1) **Basic Design Decisions.** How should the system be designed? Should the system use a weighted approach, a block grant approach, another approach?
- 2) **Base Rates.** How should base rates be established? How should the target be determined? Should grade-span be considered? What does a base rate mean in terms of services provided? What is an adequate base funding level given the resources available? Should the state set a long-term goal/target for funding?

- 3) Supplemental Funds. Should additional support be provided for certain students? If so, which student populations? How will these students be identified? How much should be provided? Should there be requirements around these funds? Should there be a time limit on how long a student can generate these funds?
- 4) Concentration funding. Do certain communities require additional supplemental support? Is a concentration factor necessary or can additional support be provided through supplemental funds? Should funds be generated based on concentrations at a schoolsite or the district level? What are the thresholds?
- 5) Special activities. Some programs that have been identified as needing special attention include: adult education, foster youth services, ROC/P, class size reduction, transportation, and facility maintenance. Should these activities be funded separately? Are there others? What is the measure for deciding whether a category should be funded separately?
- 6) Spending requirements. Should the state set forth some basic spending requirements? Should certain funds clearly supplement and not supplant? Should there be a list of allowable activities? Should districts have no requirements on the input side but be measured on student performance? What is the measure for progress?
- 7) Transition. How should a new system be implemented? Should there be a phase in period?

STAFF COMMENTS/QUESTIONS

PPIC research. A plethora of research exists related to restructuring school finance. One recent publication, *Pathways for School Finance in California (November 2010)*, offers some helpful guiding principles:

- Meet resource needs: Schools should have the resources necessary for their students to meet state academic standards, and the cost of those resources may vary from school to school for a variety of reasons.
- Structure incentives properly: The formulas allocating revenue to schools should not give schools incentives to deviate from actions in the best interest of students and taxpayers.
- Allocate funds transparently: The formulas for allocating revenue to schools should be clear and relatively simple.
- Treat similar districts equitably: When the state has chosen the factors that determine the revenue a school district receives, school districts with the same values for those factors should receive the same revenue.

- Balance state and local authority: Restrictions on the use of funds must properly balance the state objectives with the realities that schools differ widely across the state and that school administrators have unique knowledge about local conditions.

The PPIC study does not share the Governor's perspective that California's school finance system is so fundamentally flawed that only a complete overhaul could fix it. PPIC believes that the current system is flawed, but the basic elements of a sound system are already in place.

Working under the existing system, the PPIC study simulated four scenarios: 1) equalizing funding rates for revenue limits; 2) turning the current flexed categorical programs into unrestricted support; 3) increasing the Economic Impact Aid program funding rate to \$1,050 per student; and, 4) adjusting funding rates for regional differences in labor costs.

Although the data is somewhat outdated, the scenarios below demonstrates the trade-offs with each approach and can be a helpful guide as the Subcommittee considers various options for restructuring the system.

Summary of Scenarios				
Programs	Revenue limit focus	Revenue limit + modifications	Flex item focus	Economic Impact Aid focus
Revenue limit				
Allocation share (%)	100	96	66	50
Year of equalization	2013	2014	2019	2019
Median rate 2010	5403	5395	5337	5306
Median rate 2020	6806	6743	6275	6030
Median rate 2030	7486	7396	6721	6368
Flex item				
Allocation share (%)	0	0	30	30
Year of equalization	Never	Never	2030	2030
Median rate 2010	790	790	852	852
Median rate 2020	780	780	1312	1313
Median rate 2030	776	776	1540	1541
Economic Impact Aid				
Allocation share (%)	0	1	1	17
Year of equalization	Never	2030	2030	2010
Median rate 2010	313	317	317	377
Median rate 2020	314	346	346	846
Median rate 2030	314	361	361	1081
Special education				
Allocation share (%)	0	3	3	3
Year of equalization	Never	2030	2030	2030
Median rate 2010	638	644	644	644
Median rate 2020	637	693	693	693
Median rate 2030	637	717	717	717

Data Analysis. At the March 12th hearing, the Subcommittee requested the Department of Finance provide the Subcommittee with projections of local education agency funding under the Governor's LCFF proposal as compared to funding levels under current law. This data is provided as an attachment to this agenda.

On April 2, the Department of Education also released projections of local education agency funding under the Governor's LCFF proposal as compared to funding levels under current law. With the support of Kabcenell Family Foundation and the Hewlett Foundation, the CDE developed a school finance model that allows them to create projections for various school funding proposals. The CDE notes that the funding projections are illustrative only, and are not the exact projection of what any individual school district or charter school can expect to receive under any funding formula simulated, but this projection exercise allows for a better understanding about how comprehensive finance reform proposals affect LEA funding. The CDE data is also provided as an attachment to this agenda.

As various options are considered, the Subcommittee may wish to direct budget staff to work with CDE and DOF to simulate various scenarios based on information gathered through the hearing process.

ISSUE 2: INFORMATION ONLY: GOVERNOR'S 2013-14 PROPOSAL: LOCAL CONTROL FUNDING FORMULA: VARIOUS PROGRAMS

During the March 12th hearing, several questions were raised around the impact of the Governor's Local Control Funding Formula on a number of existing programs. This issue provides background on several programs as well as options for the Subcommittee to consider moving forward.

ECONOMIC IMPACT AID

A major component of Governor's LCFF proposal is to generate more resources for districts that serve English learner (EL) and low-income (LI) pupils. The state currently has a program that serves these populations – the Economic Impact Aid (EIA) program. This issue provides background on the EIA program and how it compares to the Governor's proposal.

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

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

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

In meeting these requirements, school districts must determine whether they will use their EIA funding all for supplemental services for EL pupils or LI pupils, or a combination of the two. Statute requires districts to provide "programs appropriate to the educational needs of [EL pupils]." Current law also provides the State Department of Education (SDE) with the authority to monitor this program.

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

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

School Districts receive funding based on the total number of ELs and LI pupils enrolled. The number of EL pupils is determined through the home language survey, which is distributed to parents each year, and results from the California English Language Development Test, which measures a pupil's English proficiency. The number of LI pupils is based on federal Title I calculations (poor/needy pupils).¹ Districts receive two EIA apportionments for pupils who are both EL and LI – an average of \$700 per student who meets both criteria. In addition, districts whose enrollment is over 50 percent EL or LI pupils receive a supplemental "concentration" grant. The concentration grant provides one-half (an average of \$175) per pupil funding for every EL or LI pupil over the 50 percent threshold. If the pupil is designated as both EL and LI, the allocation is \$330 per pupil.

How is EIA program funding different from the Governor's LCFF Supplemental Grant proposal? The following chart demonstrates the differences between the EIA program and the Governor's LCFF Supplemental Grant.

	EIA Program	LCFF Supplemental Grant
Pupils that earn funding	EL and low-income pupils. ² The EIA formula allows for duplicated counts.	EL, LI, and foster youth pupils. ³ The LCFF uses unduplicated counts.
Per pupil funding	\$330 average per EL and LI pupil. If the pupil is both an EL and LI, \$700 average per pupil.	\$2,220 - \$2,688 per EL, LI, and foster youth pupil. Districts do not receive additional funding if the pupil is designated as both EL and LI or LI and a foster youth, etc.
Concentration Grant	District whose enrollment is over 50% of EL or LI pupils receive a concentration grant – \$165 average per EL or LI pupil (one-half of average allotment). Districts receive this funding for every pupil over the 50% threshold. For every pupil who is both an EL and LI, the district receives an average of \$330 per pupil.	District whose enrollment is over 50% of EL, LI, or foster youth pupils receive a concentration grant - \$2,220-\$2,668 per pupil (full allotment). Districts receive this funding for every pupil over the 50% threshold. Districts do not receive additional funding if the pupil is designated as both EL and LI or LI and a foster youth, etc.
How can the funding be used?	Funding is required to be spent on EL and LI pupils to provide services and programs that meet the needs of these pupils.	Funding is required to be used for "any educational purpose so long as it substantially benefits" EL, LI, or foster youth pupils.

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

²LI pupils in EIA are determined by Title I counts.

³LI pupils in LCFF are determined by Free-reduced price lunch counts.

	EIA Program	LCFF Supplemental Grant
Is the funding supplemental?	Yes – school districts must use this funding to provide additional services beyond the base program for EL and LI pupils.	No – school districts are not required to use this funding to provide additional services to EL, LI, or foster youth pupils.
Accountability	School districts are monitored by SDE to ensure they are meeting these requirements.	School districts are required to develop a plan to delineate how they will spend these funds to "substantially benefit" EL, LI, and foster youth pupils. County Superintendents are required to review these plans as part of a district's annual budget certification process.
How does funding increase/decrease under this program?	Funding is subject to an appropriation in the annual budget act. Therefore, it increases or decreased depending on the annual allocation.	Funding is tied to the amount of the per pupil base grant. Specifically, it is 35% of the base grant. As such, if the base grant increases by an appropriation or a cost-of-living adjustment the per pupil funding increases as well (same mechanism for decreases).
How long can school districts receive per pupil funding?	Districts receive per pupil funding as long as the pupil is classified as an EL or LI.	Districts receive per pupil funding as long as the pupil is classified as free-reduced, price lunch and a foster youth. For an EL pupil, he or she only generates funding for 5 years, assuming he or she is not reclassified before then.

STAFF COMMENTS/QUESTIONS

The Subcommittee may wish to consider a modified approach to the Governor's proposal that would provide additional funding through the EIA program or a similarly structured supplemental grant.

BASIC AID DISTRICTS

According to the Legislative Analyst's Office, in most school districts, revenue limit funding is supported by a combination of both local property tax (LPT) revenue and state aid. For some districts, however, the amount of LPT revenue received is high enough to exceed their calculated revenue limit entitlements. These districts are referred to as basic aid or "excess tax" districts. (The term basic aid comes from the requirement that all students receive a minimum level of state aid, defined in the State Constitution as \$120 per pupil, regardless of how much LPT revenue their district receives.)

Generally, basic aid districts are found in communities that have (1) historically directed a higher proportion of property taxes to school districts, (2) relatively higher property values, and/or (3) comparatively fewer school-age children. In 2011-12, 126 of the state's 961 school districts were basic aid. These districts retained the LPT revenue in excess of their revenue limits and could use it for any purpose. The amount of excess tax revenue each basic aid district received in 2011-12 varied substantially, but was typically about \$3,000 per pupil. Under current law, basic aid districts do not receive any state aid for their revenue limits, but they do receive state categorical aid similar to other school districts.

Governor's LCFF proposal modifies basic aid calculation. The Governor proposes to change how local property tax (LPT) revenue factors into K-12 funding allocations, which could change whether districts fall into basic aid status. Currently, a district's LPT allotment serves as an offsetting revenue only for determining how much state aid it will receive for revenue limits, not for categorical aid. The Governor proposes to count LPT revenues as an offsetting fund source for the *whole* LCFF allocation—base grant *and* supplements. The proposal, however, has one notable exemption. All districts (including basic aid districts) would be given the same level of per-pupil state categorical aid they received in 2012-13 into perpetuity. Thus, in the future a basic aid district with LPT revenue that exceeded its total LCFF grant would maintain this additional LPT revenue and also receive its 2012-13 per-pupil state allocation.

LAO recommendation. To prioritize limited state funds for those districts that do not benefit from excess LPT revenue, the LAO recommends rejecting the Governor's proposal to guarantee districts the same level of state aid they received in 2012–13. The LAO does, however, recommend adopting the Governor's proposal to count LPT revenue towards a district's *entire* LCFF grant, including both the base and supplemental grants. Under the LAO modified approach, basic aid districts whose LPT revenues exceed their calculated LCFF levels would not receive any state aid beyond the minimum constitutional obligation of \$120 per pupil. This would end the current practice of providing basic aid districts with state categorical aid in addition to their excess LPT revenue—often resulting in notably higher per-pupil funding rates compared to other districts.

STAFF COMMENTS/QUESTIONS

As the Subcommittee considers a modified approach to the Governor's proposal, staff recommends the state provide basic aid districts with the minimum constitutional obligation of \$120 per pupil, per the LAO recommendation.

NECESSARY SMALL SCHOOLS

State law specifies the conditions that establish school eligibility for the Necessary Small School (NSS) supplement. According to the LAO report: *How Small Is Too Small? An Analysis of School District Consolidation*, the eligibility criteria include size (elementary schools must have fewer than 101 ADA and high schools must have fewer than 301 ADA; both must be in districts with fewer than 2,501 ADA), distance (for example, if as many as five elementary students would have to travel more than ten miles one way to attend the nearest other school within that district), or other condition (for example, if nearby roads are typically

impassable for more than two weeks a year). The base statutory NSS grant amounts (in lieu of revenue limits) provide \$138,000 for each group of up to 24 elementary students and \$500,000 for high schools with up to 19 students and three teachers. (In recent years, these amounts have been deficiated commensurately with revenue limit reductions). The amount of funding the supplement provides can vary significantly based on school size. (If it yields them more funding, districts with larger NSS-eligible schools may opt to receive per-pupil revenue limits instead of the NSS grant). Of the 203 schools generating the NSS supplement, 74 serve fewer than 20 ADA, with 58 of these schools serving fewer than 15 ADA.

The Governor proposes to maintain this practice of providing Necessary Small Schools with a block grant in lieu of an ADA-based LCFF grant. The Governor's proposal changes the definition for NSS, however, such that only geographically isolated schools would be eligible for the additional funds. This would eliminate an existing statutory clause that allows a school to claim NSS status (and additional funding) even if it is located near a similar public school, provided it is the only school in the *district*. Many schools currently receive NSS funding by virtue of being a school district consisting of a single school, not because they are geographically isolated.

STAFF COMMENTS/QUESTIONS

Several schools that receive the NSS grant have raised concerns over the Governor's proposal. Does a community day school that must be on a separate site count as another public school serving the same grade level for determining whether a comprehensive Necessary Small School should be denied NSS funding? What about proximity to independent charter schools?

The Subcommittee should consider these issues when deciding how to fund and define Necessary Small Schools moving forward.

HOME TO SCHOOL TRANSPORTATION PROGRAM AND TARGETED IMPROVEMENT INSTRUCTIONAL BLOCK GRANT

The Governor's budget proposes to exclude the Home to School Transportation (HTST) program and the Targeted Improvement Instructional Block Grant (TIIBG) from the new Local Control Funding Formula (LCFF). School districts and county offices of education that currently receive funding for these programs would continue to receive funding as a permanent "add-on" to the LCFF formula. The Governor's plan "locks" funding in at the existing allocations, but repeals existing program requirements, allowing funds to be used for any educational purpose. The Governor's plan does not propose to provide COLAs for these programs.

During the March 12th hearing, a number of questions were raised around the Governor's approach to funding the HTST Program and the TIIBG. Specifically, the Subcommittee posed the following questions:

- Why did the Governor choose not to include these programs in the formula? Why maintain them as "add-on" programs?
- If the programs are to be funded separately, should program requirements remain?
- How would the formula change if these programs were included?
- What was the original purpose of these programs and are they meeting the program objectives?
- Will litigation result as a result of the elimination of these program funds?

This issue provides background on each of these programs as well as options to consider as the Subcommittee contemplates funding for these purposes moving forward.

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

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

Starting with the 1992–93 fiscal year, HTST funding was split between home-to-school and special education transportation. (Special education transportation is defined as transportation for severely disabled and orthopedically impaired (SD/OI) students.) All subsequent allocations of HTST funding have been based on the amount eligible districts received in 1992-93.

Starting in 2009, the HTST program was subject to an ongoing 20 percent reduction in funding (along with most other categorical programs) pursuant to Control Section 12.42 in the annual budget act. Though the program was cut, it was not one of the “flexed” categorical programs, meaning all program requirements have been maintained. Some of the program requirements include:

- An LEA is required to spend its entire entitlement amount, prior to the reduction, to continue receiving that same level of funding.

- Although an LEA's entitlement cannot be increased due to higher expenditures, its entitlement is reduced if its expenditures do not meet or exceed its prior year entitlement (E.C. 41851(c)). If an LEA does reduce its expenditures, and thus receives a reduction to its entitlement, its entitlement will not go back up, even if the district's expenditures increase.
- Only those LEAs who have continuously participated in the HTST program since the base funding amounts were established in the 1980s are eligible for HTS funding.

Funding. The 2012-13 Budget Act appropriated a total of \$496 million General Fund (Proposition 98) for the school transportation programs.

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

According to CDE, 915 LEAs reported transportation data in 2011-12. 864 provided home to school transportation to an estimated 621,252 students daily, at a cost of \$728.6 million. 453 provided severely disabled/orthopedically impaired transportation to an estimated 91,382 students daily, at a cost of \$579.7 million. These districts use a mix of HTST funding and general purpose funding to cover their transportation costs. The following table shows some of the largest apportionments under the HTST program.

LEAs with large HTST apportionments 2011-12 Expenditure Data					
LEA	HTST - non SD/OI Apportionment (after CS 12.42 reduction)	HTST - SD/OI Apportionment (after CS 12.42 reduction)	Total HTST Apportionment	Total Expenditures	Difference Between Apportionment and Expenditures
Los Angeles Unified	36,399,049	41,188,780	77,587,829	113,628,238	-36,040,409
San Diego Unified	2,476,042	7,083,414	9,559,456	24,417,918	-14,858,462
Long Beach Unified	4,325,551	704,425	5,029,976	12,358,724	-7,328,748
Oakland Unified	2,620,655	3,104,307	5,724,962	12,001,056	-6,276,094
San Juan Unified	2,601,804	2,628,977	5,230,781	10,777,366	-5,546,585
Stockton Unified	3,481,721	975,632	4,457,353	9,255,895	-4,798,542
San Francisco COE	761,809	3,644,095	4,405,904	12,646,613	-8,240,709
Fresno Unified	3,299,334	1,102,223	4,401,557	13,639,713	-9,238,156
Lodi Unified	3,064,998	1,131,632	4,196,630	5,896,465	-1,699,835
Sacramento City Unified	1,174,015	2,941,442	4,115,457	13,867,749	-9,752,292
San Bernardino City Unified	742,885	2,911,122	3,654,007	12,634,590	-8,980,583
Pasadena Unified	3,134,794	0	3,134,794	4,116,421	-981,627
West County Transportation JPA	2,237,348	926,087	3,163,435	7,011,106	-3,847,671
Antelope Valley Schools Transportation Agency	1,679,962	1,739,016	3,418,978	9,700,908	-6,281,930
Garden Grove Unified	2,172,580	1,158,244	3,330,824	11,242,590	-7,911,766
<i>Source: CDE</i>					

Although transportation costs exceed the apportionment for most of these districts, it is important to note that some districts with similar transportation needs receive little to no dedicated funding for transportation. For example, Palmdale Unified School District is very similar to Pasadena Unified School District with regard to transportation expenses. Each district has roughly \$4 million in transportation expenses. However, Pasadena USD receives \$3.2 million for transportation costs while Palmdale USD only receives \$309,000. The following chart lists some of the lowest expense to apportionment ratios.

Districts with low expense to apportionment ratios 2011-12 Data			
Local Educational Agency	Total Approved Expenses	Total Apportionment Prior to Cash Adjustments	Apportionment/Expenses
Bayshore Elementary	16,791	21	0.13%
Sausalito Marin City	93,748	467	0.50%
Murrieta Valley Unified	3,462,288	88,659	2.56%
Union Elementary	211,375	5,659	2.68%
Burlingame Elementary	149,921	4,139	2.76%
Dry Creek Joint Elementary	1,361,281	54,637	4.01%
Carlsbad Unified	2,567,955	137,867	5.37%
Glendora Unified	584,657	31,822	5.44%
Escondido Union High	1,796,609	103,031	5.73%
McKittrick Elementary	331,781	19,966	6.02%
Oakley Union Elementary	479,053	29,977	6.26%
Palmdale Elementary	4,506,029	309,220	6.86%
Baldwin Park Unified	1,380,042	99,665	7.22%
San Bruno Park Elem	333,957	24,855	7.44%
Cambrian	223,221	16,931	7.58%
<i>Source: CDE</i>			

STAFF COMMENTS/QUESTIONS

2007 Bureau of State Audit Report. In March 2007, the Bureau of State Audit (BSA) released an audit of the Home-to-School Transportation program and concluded the following, among others:

- 1) Current law, due to the requirement that only those districts that received allocations the prior year are eligible for funds, excludes approximately 120 districts from receiving Home-to-School Transportation funds. The State Department of Education should identify all school districts that do not receive funds and change the law to ensure that all districts that provide transportation services are eligible for funding.

- 2) The funding formula does not accommodate changes such as large increases in enrollment or necessary expenses such as purchase of a new school bus. The funding formula should be amended to provide more flexibility to account for such changes.
- 3) Urban school districts typically have higher transportation costs per student, but received lower Home-to-School program funds per student than rural school districts.

The Subcommittee may wish to consider implementing the BSA audit recommendations and providing a formula to provide additional resources that is more closely aligned to statewide costs. Below is an estimate of costs associated with bringing districts up to various funding levels.

	Current Costs	Additional Costs			
	2012-13 Deficited Apportionment	If Funded at 65%	If Funded at 75%	If Funded at 85%	If Funded at 100%
Home to School Transportation	\$305,520,776	\$160,502,765	\$232,198,691	\$303,894,634	\$409,438,520
Special Education Transportation	\$185,591,224	\$187,711,375	\$245,142,542	\$302,573,700	\$388,720,469
Totals	\$491,112,000	\$348,214,140	\$477,341,233	\$606,468,334	\$798,158,989

Source: Strategic Education Services

TARGETED INSTRUCTIONAL IMPROVEMENT BLOCK GRANT. The state has provided funding for court-ordered and voluntary desegregation activities for decades. SB 735 (Chapter 891, Statutes of 2001) repealed the Education Code sections that provided funding for court-ordered and voluntary desegregation programs for school districts and replaced them with the Targeted Instructional Improvement Grant (TIIG) program funded in the 2000-01 Budget Act.

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

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

Funding. TIIBG is among the 39 categorical programs which have been made flexible since 2008-09. It is also subject to the 20 percent categorical program reductions under Control Section 12.42 of the annual Budget Act.

The 2012-13 Budget Act provided \$855 million General Fund (Proposition 98) for the TIIG block grant. As mentioned above, these funds were made flexible starting in 2008. 543 LEAs receive TIIG block grant funds. The largest apportionment, nearly 60 percent of total funding, is provided to Los Angeles Unified School District (LAUSD) (\$460.5 million). The smallest apportionment goes to Panoche Elementary School District (\$241).

Largest TIIBG Allocations 2011-12 Data	
District	Allocation
LAUSD	460,568,614
San Diego Unified	64,462,998
San Francisco Unified	38,108,038
San Jose Unified	30,727,295
San Bernardino City Unified	16,848,534

STAFF COMMENTS/QUESTIONS

According to CDE, two LEAs (LAUSD and San Diego Unified School District) continue to identify TIIBG resources for their transportation activities attributed to desegregation. According the LAO, four districts continue to have active desegregation orders in effect: LAUSD, Palo Alto Unified, San Bernardino City Unified, and Sequoia Union High.

According to LAUSD, as recently as 2008, the Court of Appeals affirmed that the district is still subject to the court desegregation orders issued in *Crawford v. Board of Education of City of Los Angeles (1981)*. The district continues to use TIIG funds to comply with the court desegregation order. The district's integration efforts include decreased class sizes for racially isolated schools, magnet programs, and transportation for magnet students.

The Legislative Analyst's Office recommends the Legislature include both the TIIG and HTS Transportation programs in a proposed categorical consolidation and new funding formula. According to the LAO, this would treat these two categorical programs comparably to the vast majority of other existing categorical programs. Excluding these programs would permanently maintain significant funding differences across districts without a rational basis for doing so.

It is not clear how substituting additional supplemental funding for TIIG funding would affect desegregation court orders. Staff recommends the Subcommittee continue to review the issue.