

K THRU 12 EDUCATION

California provides compulsory instruction and support services to roughly six million students in grades kindergarten through twelve in more than 10,000 schools throughout the state. Through a system of 58 county offices of education and more than 1,000 local school districts and charter schools, students are provided with instruction in English, mathematics, history, science, and other core competencies to provide them with the skills they will need upon graduation for either entry into the workforce or higher education.

The May Revision includes total funding of \$70 billion (\$39.9 billion General Fund and \$30.1 billion other funds) for all K-12 Education programs.

PROPOSITION 98

A voter-approved constitutional amendment, Proposition 98, guarantees minimum funding levels for K-12 schools and community colleges. The guarantee, which went into effect in the 1988-89 fiscal year, determines funding levels according to multiple factors including the level of funding in 1986-87, General Fund revenues, per capita personal income and school attendance growth or decline.

Overall, General Fund revenues that drive the Proposition 98 calculation are projected to grow by over \$1 billion for the two-year period of 2012-13 to 2013-14, including a projected increase of \$2.8 billion for 2012-13 and a projected decrease of \$1.8 billion for 2013-14. Driven in large part from these changes in revenues, Proposition 98

funding increases by \$2.9 billion to a total of \$56.5 billion in 2012-13, and decreases by \$941.4 million to a total of \$55.3 billion in 2013-14, relative to the Governor's Budget. Proposition 98 funding for K-12 education is projected to grow by over \$17.4 billion from the 2011-12 fiscal year to the 2016-17 fiscal year, representing an increase of more than \$2,700 per student.

The May Revision continues to reinvest in K-12 schools and pay down the "Wall of Debt." The increase in revenues makes it possible to accelerate the repayment of inter-year budgetary deferrals by \$1.6 billion in 2012-13. This will provide local education agencies with a significant infusion of additional cash for 2012-13, which in turn will substantially reduce borrowing costs for schools. Moving forward, these funds will further shore up base funding for all schools, providing them with additional ongoing resources in future years for critical programs and services. The May Revision further improves base resources for local education agencies by increasing first-year funding for the Local Control Funding Formula by \$240 million, for a total of \$1.9 billion. It will also help schools prepare for significant changes in curriculum and instruction by providing a \$1 billion augmentation in 2012-13 to assist schools in implementing the new Common Core academic standards. This investment will allow school districts, county offices, and charter schools to make significant one-time investments in the required areas of focus for Common Core implementation—professional development, instructional materials, and enhancements to technology. This investment will provide a substantial increase to all schools outside of the Local Control Funding Formula, providing on average almost \$170 per student.

As detailed further in the Higher Education section, the May Revision also proposes to restructure and delay the Adult Education proposal included in the Governor's Budget. This pause will reduce the level of uncertainty for existing K-12 adult education providers, while providing additional time to phase in governance and program delivery changes.

Additional discussion of the Local Control Funding Formula and other K-12 budget adjustments appear in the pages that follow, while the Higher Education section contains the Proposition 98 adjustments for the Community Colleges.

LOCAL CONTROL FUNDING FORMULA

The Governor's Budget proposed a new Local Control Funding Formula predicated on an assessment that the current system of school finance is overly complex, administratively costly, and inequitably distributed. The new formula also recognized that the current

system is largely state-driven, limiting the ability of local school officials to decide how best to meet the needs of their students. The formula was also grounded in empirical research and practical experience indicating that students from low-income families and English language learners come to school with unique challenges that often require supplemental instruction and other support services to be successful in school.

The Local Control Funding Formula proposed in the Governor's Budget included the following components: (1) a base grant for each local education agency equal to the 2007-08 statewide average undeficitated revenue limit upon full implementation, (2) an adjustment of 11.23 percent to the base grant to support lowering class sizes in grades K-3, (3) an adjustment of 2.8 percent to reflect the cost of operating career technical education programs in high schools, (4) a 35-percent supplemental grant for English learners, students from low-income families or foster youth to reflect increased costs associated with educating those student groups, and (5) an additional concentration grant up to 17.5 percent of a local education agency's base grant, based on the number of English learners, students from low-income families, or foster youth served by the local agency that comprise more than 50 percent of enrollment.

The Local Control Funding Formula will bring greater equity in base funding between all schools by setting a statewide base funding target. It also avoids taking resources away from any school by ensuring that no school receives less funding than it did during the 2012-13 year. The vast majority of schools will benefit from additional resources. This is directly attributable to the emphasis that the formula places on base grants. Of the more than \$22 billion in new funding to be invested in this formula over the next seven years, the vast majority of new funding will be provided for base grants. Specifically, of every dollar invested in this formula, 80 cents will go to base grants, 16 cents will go to supplemental grants, and 4 cents will go to concentration grants.

Under the proposal, the base grant is \$6,816, \$1,548 more than today's average revenue limit. Increasing this substantial base grant would only delay implementation of the formula, direct new money away from those schools that need it most, and perpetuate existing inequities. Similarly, an elimination or significant reduction of the concentration grant would direct new money away from the schools that need it most and perpetuate existing inequalities. Further, any money redirected from the concentration grant will not produce as significant a benefit when spread out across all schools, as it would if it remained concentrated with those districts that need it most.

There is broad consensus that the current system of school finance is inequitable. Even before the substantial reductions to revenue limits and categorical programs that began in 2008-09, the distribution of resources between schools differed substantially. Generally, schools with relatively higher proportions of English learners and students from low-income families had lower revenue limits and relied more heavily on state aid, including targeted categorical funds. Reductions since the economic downturn of 2008 have disproportionately affected these districts given their heavy reliance on state aid. The May Revision reflects the Administration’s commitment to establishing a just funding system for school districts by maintaining the same targeted funding levels for base grants, supplemental funding, and concentration grants as proposed in the Governor’s Budget.

The Administration would also like to clarify some common misperceptions surrounding the calculation of the concentration grant factor. This grant is intended to provide, on a sliding scale, additional per-student funding of anywhere between 0 and 17.5 percent of a district’s base grant funding level. The level of additional funding provided by this grant is directly scaled to the district’s enrollment of English learners students from low-income families, and foster youth that exceed more than 50 percent of a district’s total enrollment. Figure K12-01 below provides four examples that illustrate the respective range of concentration grant adjustments.

Figure K12-01
Funding Under the Formula: Four Examples

	District A	District B
Base Grant per ADA	\$7,895	\$7,895
Unduplicated % of Eligible Students	41.9%	52.4%
Supplemental Grant	$\$7,895 * 35% * 41.9% = \$1,158$	$\$7,895 * 35% * 52.4% = \$1,448$
Concentration Grant	N/A	$\$7,895 * 35% * (52.4% - 50%) = \66
Total	$\$7,895 + \$1,158 = \$9,053$	$\$7,895 + \$1,448 + \$66 = \$9,409$

	District C	District D
Base Grant per ADA	\$7,895	\$7,895
Unduplicated % of Eligible Students	80.7%	100%
Supplemental Grant	$\$7,895 * 35% * 80.7% = \$2,230$	$\$7,895 * 35% * 100% = \$2,763$
Concentration Grant	$\$7,895 * 35% * (80.7% - 50%) = \848	$\$7,895 * 35% * (100% - 50%) = \$1,382$
Total	$\$7,895 + \$2,230 + \$848 = \$10,973$	$\$7,895 + \$2,763 + \$1,382 = \$12,040$

The Concentration Grant is calculated as follows: Base Grant * 35% * (a district's percentage of English learners, free and reduced price meal eligible, and foster youth students above 50%)

The May Revision proposes the following adjustments in response to concerns raised with the formula:

- Use a three-year rolling average percentage of English learners, students from low-income families, and foster children for purposes of calculating the supplemental and concentration grants.
- Require county offices of education to review school district English learner, low-income, and foster child data and require that data to be subject to audit as part of each local education agency's annual financial and compliance audit.
- Allow local educational agencies to receive supplemental and concentration grant funding for each English learner for up to seven years.
- Provide Regional Occupation Centers and Programs and Home-to-School Transportation joint powers authorities with continued direct funding for two additional years.

ACCOUNTABILITY

The Local Control Funding Formula fundamentally shifts accountability from a system focused on state control of local spending to a system of local planning and goal setting to improve outcomes for students. While providing additional authority to locals, this new system retains the state role in determining the composition of the statewide testing system, the Academic Performance Index, and school accountability report cards, as well as establishing policies to administer the federal accountability system. It also recognizes the value in creating a more defined process to monitor and assist school districts that are unable to meet state performance expectations.

The proposed system will focus accountability on the core requirements and outcomes expected of schools and better integrate accountability within the local school district budget process. The new system moves away from expenditure requirements and other input-based measures. It requires that all school districts produce and adopt a Local Control and Accountability Plan concurrent and aligned with each district's annual spending plan. While school districts have some discretion regarding the content of the plan, all plans are required to address how districts will use state funding received through the new funding formula toward improvement in the following categories:

- Basic conditions for student achievement (having qualified teachers at each school site, sufficient instructional materials available for students, and school facilities in good repair).

- Programs or instruction that primarily benefit English language learners, foster youth, and students from low-income families—students who applied for and were deemed eligible to receive a free or reduced-price meal.
- Implementation of Common Core content standards and progress toward college and career readiness (as measured by the Academic Performance Index, graduation rates, completion of college-preparatory and career technical education courses).

The accountability structure for the Local Control Funding Formula will also require local education agencies to spend supplemental and concentration grant funding in a manner that benefits the students generating those additional funds. Districts will have flexibility over specific investments to benefit these students. To ensure that the needs of these students are addressed, the accountability system will require the following:

- Local education agencies will be required to spend for the primary benefit of English learners and students designated fluent-English proficient, students from low-income families, and foster children no less than the amount they spent for these students during the 2012-13 fiscal year. However, local agencies would be encouraged to invest additional resources in these students.
- Upon full implementation of the Local Control Funding Formula, local agencies will be required to spend for the primary benefit of English learners, students from low-income families, and foster children at least as much as they receive from the base, supplemental and concentration grants generated by these students.
- Local agencies will be required to demonstrate how they will comply with these requirements and how they will increase expenditures over time, in proportion to the additional funding they receive each year for Local Control Funding Formula implementation.

To further ensure that local agencies spend the amounts they receive for students from low-income families, English learners, and foster students to support these students, expenditures of the supplemental and concentration funds must be proportional to the number of these students at each school site. Required annual independent audits will be used to verify these proportionality requirements, along with all other expenditure requirements. In cases where the annual audit determines a specific level of misused supplemental and/or concentration grant funds, local districts will be required the following year to use an identical amount of base grant funds to address specific investments for those students.

To hold schools accountable for the achievement among all student groups, the new system proposes that county superintendents and the Superintendent of Public Instruction, based on direction of the State Board of Education, provide support to school districts and intervene when districts are unable to support their students in meeting minimum state achievement expectations. Under this structure:

- County superintendents may provide technical assistance to any school district at any time.
- For school districts that fail to meet academic achievement targets set by the State Board of Education, including achievement goals for each sub group of students, for two out of three years, the county superintendent may disapprove local plans that are not likely to improve student achievement. In more limited cases where a Fiscal Crisis and Management Assistance Team review deems necessary, a county superintendent may make changes to a district’s plan or overturn decisions made by the district governing board.
- The Superintendent of Public Instruction may intervene in place of the county superintendent in a district which is failing to meet academic achievement targets.

Finally, the Local Control Funding Formula provides significantly more instructional resources for foster youth than the existing categorical program. However, there is a need for defined and coordinated services between local education agencies and county social service agencies to ensure foster youth receive necessary services and support to be successful in school. The May Revision proposes to require the Department of Education to report on the educational progress of foster youth as part of the state’s accountability system. In addition, county superintendents will be required to develop plans to coordinate services for foster youth provided by various local agencies, such as county child welfare agencies. This coordination will assist in the maintenance of health and student records and assist in appropriate educational placements.

K-12 BUDGET ADJUSTMENTS

Significant Adjustments:

- *Common Core Implementation*—An increase of \$1 billion in one-time Proposition 98 General Fund in 2012-13 to support the implementation of the Common Core. Funding will be distributed to local education agencies on the basis of average daily attendance (ADA) to support necessary investments in professional development,

instructional materials, and technology. Because every school throughout the state is in varying stages of implementing the Common Core, local education agencies will have discretion to determine the best use of this money for their schools. However, they will be required to develop a plan to spend this money over the next two years and hold a public hearing on the plan.

- *K-12 Deferrals*—An increase of \$1.6 billion in one-time Proposition 98 General Fund for 2012-13 to accelerate the repayment of inter-year budgetary deferrals. This acceleration will be offset by a reduction of \$909.1 million Proposition 98 General Fund for proposed deferral repayments in 2013-14. When combined, total funding over the two-year period will reduce K-12 inter-year deferrals to \$4.9 billion by the end of the 2013-14 fiscal year, representing an almost \$600 million net reduction to outstanding deferrals over the two-year period from the Governor’s Budget proposal. This will reduce total outstanding deferrals to almost half of their peak value, when more than \$9.5 billion was deferred.
- *Local Control Funding Formula*—An increase of \$236 million Proposition 98 General Fund for school districts and charter schools, and \$4 million Proposition 98 General Fund for County Offices of Education, to support an ongoing increase in first-year funding provided through the Local Control Funding Formula. The total funding increase is \$1.9 billion.
- *Proposition 39 Implementation*—The Governor’s Budget proposed to allocate \$400.5 million Proposition 98 General Fund to K-12 local education agencies on a per-ADA basis to support energy efficiency projects consistent with Proposition 39. State-level entities were charged with providing guidance to local education agencies to ensure appropriate use of these funds, and local entities would be required to report expenditure information. After the release of this proposal, concerns were raised about the capacity of local education agencies to initiate and complete these types of projects, and about the lack of a minimum grant award level. To address these concerns, the May Revision proposes a minimum grant level of \$15,000 for exceptionally small local education agencies. The proposal will provide other local education agencies the greater of \$50,000 or their per-ADA distribution, ensuring that relatively small entities receive sufficient resources to complete these projects. Additionally, the May Revision proposes \$4 million Energy Resources Programs Account and 8 positions to enable the California Energy Commission to provide technical assistance to small local education agencies. The Energy Commission will help identify cost-effective energy savings opportunities for K-12 school facilities, and provide guidance on establishing baselines and tracking performance.

The May Revision proposes an increase of \$12.5 million for K-12 energy efficiency projects, based on higher Proposition 39 revenues.

- *Special Education Funding Reform*—The Governor’s Budget proposed several program consolidations for various special education programs to provide Special Education Local Plan Area’s (SELPA’s) with additional funding flexibility. The May Revision proposes several additional program consolidations to further simplify special education funding and provide even greater flexibility for SELPA’s.
- *Special Education Backfill*—An increase of \$60.7 million Proposition 98 General Fund for special education programs to backfill a federal sequestration cut of an identical amount.
- *Local Property Tax Adjustments*—A decrease of \$509.8 million Proposition 98 General Fund in 2013-14 for school districts, special education and county offices of education as a result of higher offsetting property tax revenues.
- *Average Daily Attendance*—An increase of \$35.5 million in 2012-13 and an increase of \$87.6 million in 2013-14 for school districts, charter schools and county offices of education as a result of an increase projected ADA in both years.
- *Categorical Program Growth*—An increase of \$14.3 million Proposition 98 General Fund for selected categorical programs based on updated estimates of projected ADA growth.
- *Cost-of-Living Adjustments*—A decrease of \$2.9 million Proposition 98 General Fund to selected categorical programs based on a revised Cost-of-Living factor of 1.565 percent for 2013-14.
- *CTA v Schwarzenegger Settlement*—At Governor’s Budget, the 2012-13 Proposition 98 guarantee was over-appropriated by \$162.8 million. This over-appropriation was used to pre-pay a portion of the settlement obligation incurred by the *CTA v Schwarzenegger* lawsuit. As a result of the changes in the guarantee at the May Revision, the settlement payment will be made on its regular schedule.
- *Technology-Based Instruction*—After releasing this proposal in January, a number of concerns were raised by the Department of Education and the Legislative Analyst’s Office related to the calculation of ADA, accountability for student outcomes under this mode of instruction, and whether 2013-14 was a reasonable timeframe for implementation. The Administration remains committed to expanding the use of

technology-based instruction but believes these concerns have merit. As a result, the May Revision proposes to delay consideration of reforms to the 2014-15 Budget.

CHILD CARE AND STATE PRESCHOOL

Subsidized Child Care includes a variety of programs designed to support low-income families so they may remain gainfully employed. These programs are primarily administered by the State Department of Education (SDE). Additionally, the State Preschool program is designed as an educational program to help ensure children develop the skills needed for success in school. SDE and the Department of Social Services jointly administer the three-stage CalWORKs child care system to meet the needs for child care of recipients of aid while they participate in work activities and as they transition off of cash aid. Families can access services through centers that contract directly with SDE, or by receiving vouchers from county welfare departments or alternative payment program providers.

Significant Adjustments:

- *Stage 2*—A decrease of \$511,000 non-Proposition 98 General Fund in 2013-14 to reflect a slight decline in the number of eligible CalWORKs Stage 2 beneficiaries. In 2010-11, approximately 6,000 children were determined eligible for diversion services in Stage 2. These children and their eligible families are re-entering Stage 3 in 2012-13, and this population trend will continue into 2013-14. Total base cost for Stage 2 is \$397.8 million.
- *Stage 3*—A decrease of \$15.1 million non-Proposition 98 General Fund in 2013-14 to primarily reflect updated caseload data. At the Governor's Budget, it was assumed that approximately 6,000 children that were diverted to Stage 2 would transfer back to Stage 3. At the May Revision, actual caseload information indicates that the Stage 3 population fell short of these estimates. The May Revision grows the Stage 3 base by \$9.1 million in 2013-14 over the 2012 Budget Act level, for a total base cost for Stage 3 of \$157.5 million.
- *Capped Non-CalWORKs Programs*—An increase of \$1.7 million General Fund for capped child care programs and an increase of \$1.2 million Proposition 98 General Fund for state preschool due to an increase in the population of 0-4 year old children.
- *Child Care and Development Funds*—A net increase of \$8.5 million federal funds in 2013-14.