



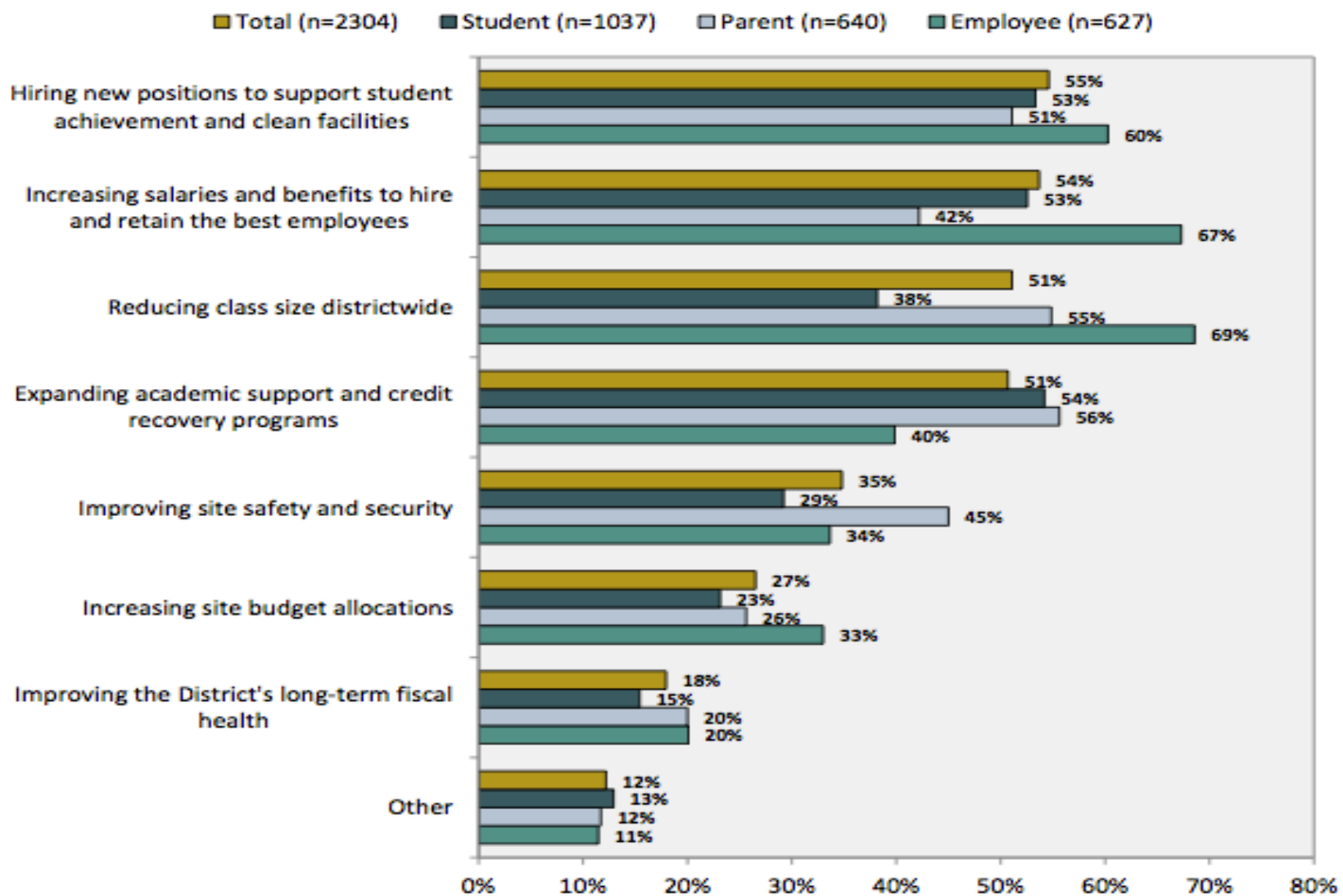
BUDGET ADVISORY COMMITTEE OVERVIEW

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Outcomes:

- 1. Preview of Budget Priority Survey**
- 2. Highlights from the Governor's 2014-15 Budget**
- 3. Overview of the Local Control Funding Formula (LCFF)/Proportionality Analysis**
- 4. Overview and requirements of Local Control Accountability Program (LCAP)**
- 5. Overview of Routine Restricted Maintenance and Deferred Maintenance**
- 6. Budget Approach for Funding Priorities**

Figure 1.1: As education funding is restored, what do you believe should be the district's primary budget priorities? Please select up to four choices.



Governor's Proposals for the 2014-15 State Budget and K-12 Education



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Summary as Presented by School Services of California

Marcus Battle, Associate Superintendent for Business
East Side Union High School District

Themes for the 2014 Budget

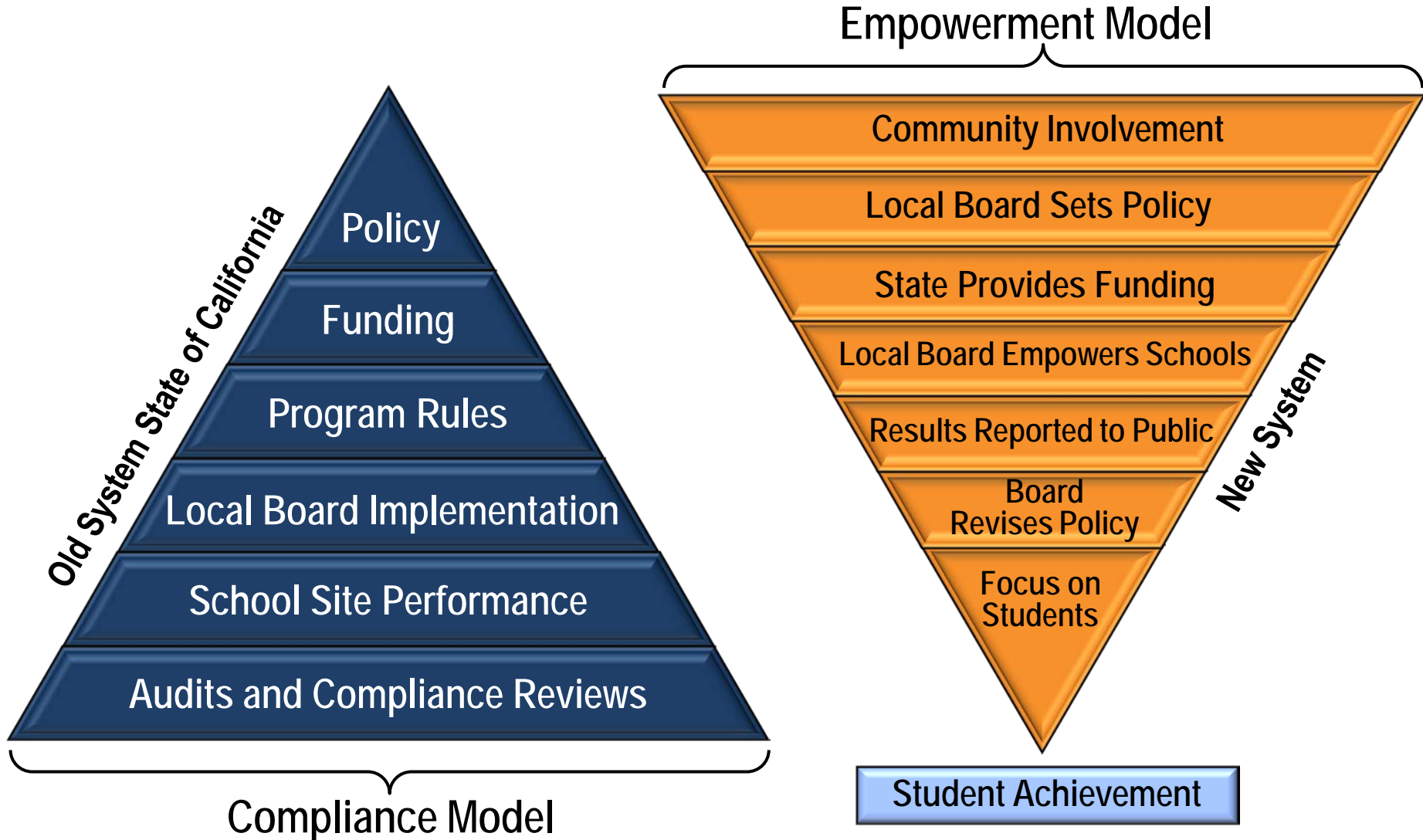
- What a difference a year makes!
 - Only 14 months ago we were facing deep cuts if Proposition 30 didn't pass
- Governor Jerry Brown is proposing the greatest increase in per-student average funding since 2000-01
- He takes a wrecking ball to the "wall of debt" by buying down the remaining K-14 deferrals
- The Proposition 98 entitlement skyrockets even while the California economy as a whole only improves at a moderate rate
- The increase in Proposition 98 creates a window of opportunity unlike any we have had before
- To protect public education during the eventual downturns, the Governor proposes two rainy day funds: one for education and one for the rest of the State Budget
- The Governor is proposing a continuous appropriation for the Local Control Funding Formula (LCFF)

- The slow economic recovery continues . . . UCLA Anderson Forecast
- Unemployment rates are falling for both the nation and California
- California's housing market, which took the biggest fall among the states during the recession, is now recovering briskly
- While it has been 4½ years since the recovery started, the nation has yet to recover the jobs lost since the start of the recession
- The major bell weather of optimism is the stock market – new highs signify high hopes for the future

Education Is this Governor's Top Priority

- While the state still faces significant Budget pressures for the non-Proposition 98 part of the Budget, the Administration's attitude toward education is dramatically different this year
- While public education took more than its fair share of the cuts during the recent recession, public education under this Governor is recovering at a much faster rate
- The Governor understands the message the public sent in the passage of Proposition 30 – and is responding to it
- Local districts will control programs for the first time in 40 years!
- And the education community is more together than it has been in recent years
- These factors together gives us a tremendous opportunity – we cannot let it get away!

Complete Mind Shift of Governance and Planning



Highlights of the State Budget and the State Economy

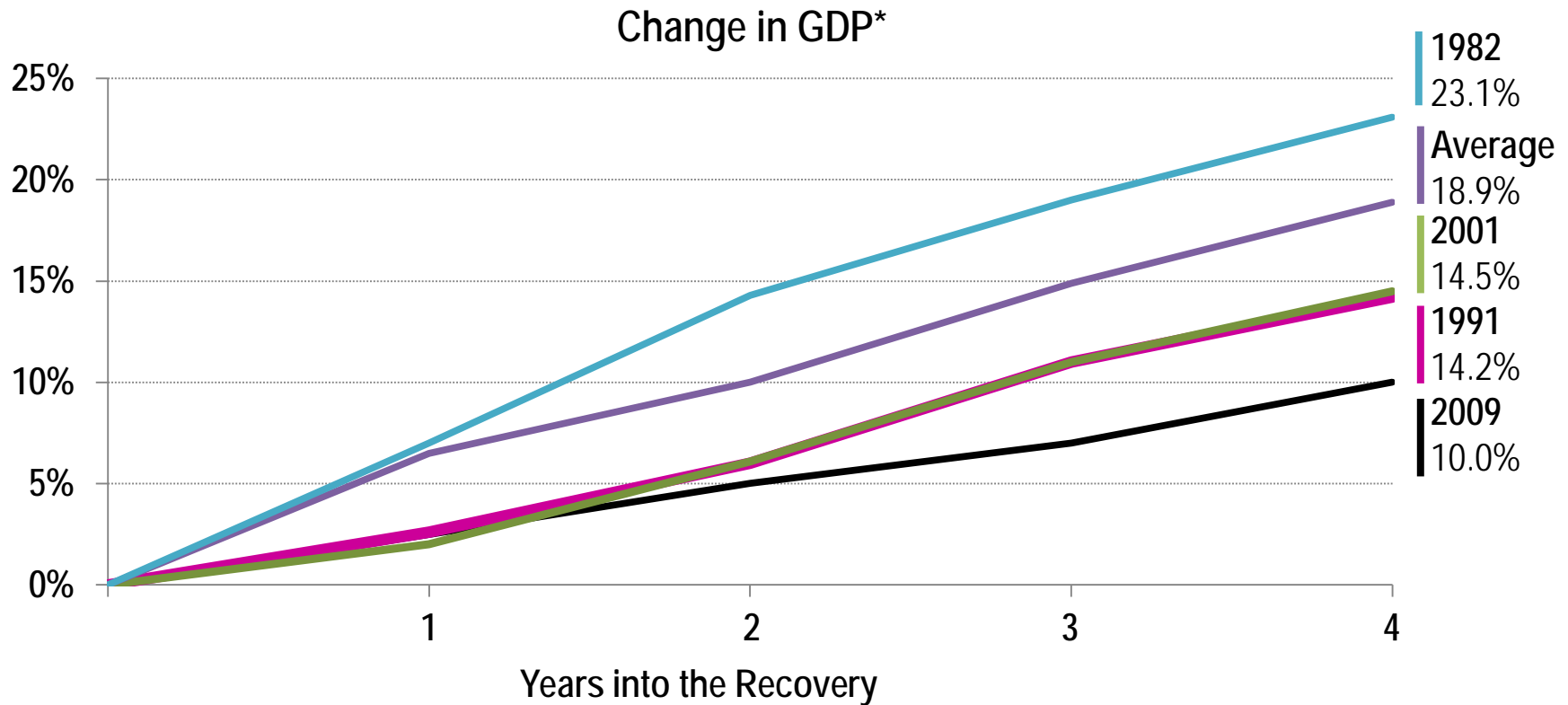


- The U.S. economy continues to show positive growth, but most recent quarters are not only below recovery levels, they are also below normal growth rates
 - The latest reported quarter, Quarter 3 (Q3) 2013, is encouraging; at 4.1% it eclipses what we would look for in a “normal” quarter, about 3.5%
- The economy is growing more evenly than in the past
 - The stock market is hitting new highs, regularly indicating optimism in the investment community
 - Housing markets are heating up in most areas of the country
 - Capital investment by business is up
 - Employment is improving
 - Consumer spending is up
- The economy seems to be consolidating its hard-fought gains

Sluggish Growth – Comparing Recent Recoveries

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- How the expansion that began in 2009 compares with the first four years of other recoveries



Note: Average is for recoveries after WWII, excluding the one that started in 2009

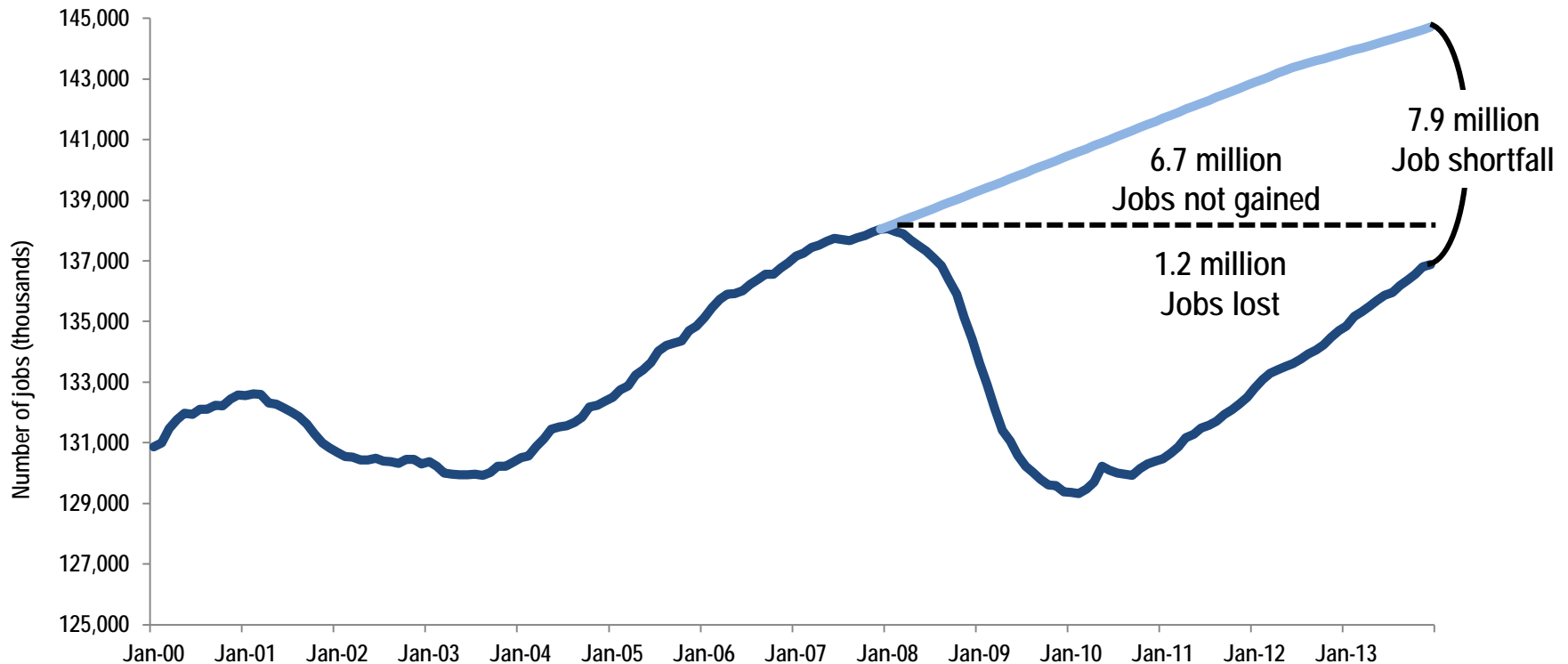
*Adjusted for inflation and the seasons

Source: Commerce Department

The Wall Street Journal, December 18, 2013

Recession has left a job shortfall of nearly 8 million

Payroll employment and the number of jobs needed to keep up with the growth in the potential labor force, 2000–2013



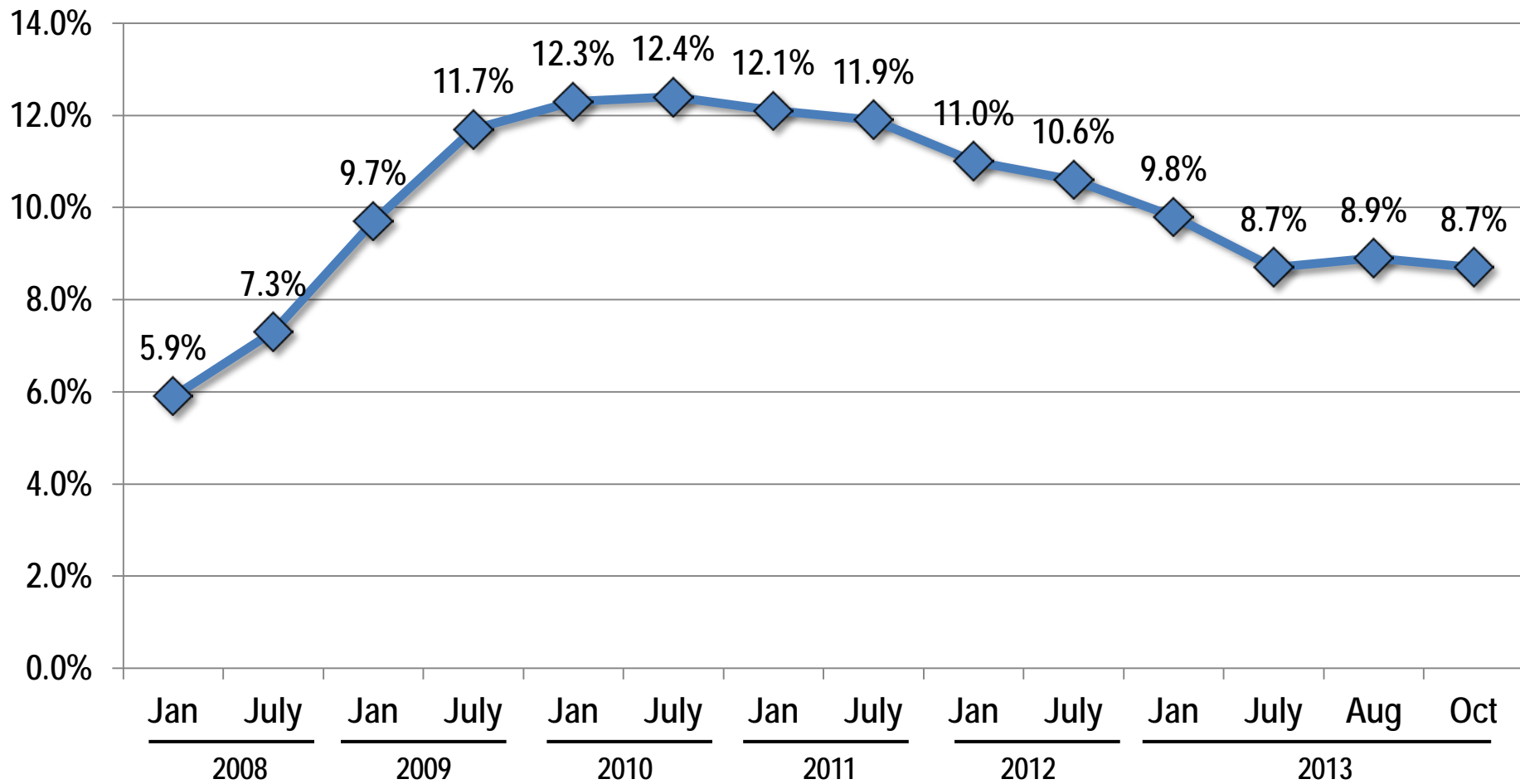
Note: Congressional Budget Office estimates of the potential labor force (found here: http://cbo.gov/sites/default/files/cbofiles/attachments/43910_Key AssumptionsProjectingPotentialGDP.xls) are used to calculate the number of jobs needed to keep up with the growth in the potential labor force.

Source: Author's analysis of Bureau of Labor Statistics Current Employment Statistics public data series and Congressional Budget Office data

- California's economic outlook is also improving
 - Employment is still a problem; job growth lags the nation and California is among the five states with the highest unemployment
 - The unemployment rate is declining, but slower than the rest of the nation
 - Personal income is forecast to grow at an accelerated rate over the next couple of years, but actual performance has fallen short of past forecasts
 - Housing markets are heating up along the coastal areas, but inland and central valley areas are moving up more slowly
- Prior to the "Great Recession," our economy, without temporary taxes, produced General Fund revenues of just over \$100 billion
 - For 2014-15, the Department of Finance (DOF) projects revenues of \$106 billion, including \$7 billion in temporary taxes from Proposition 30
 - The state has a Budget surplus because of past Budget reductions, economic growth, and the temporary taxes

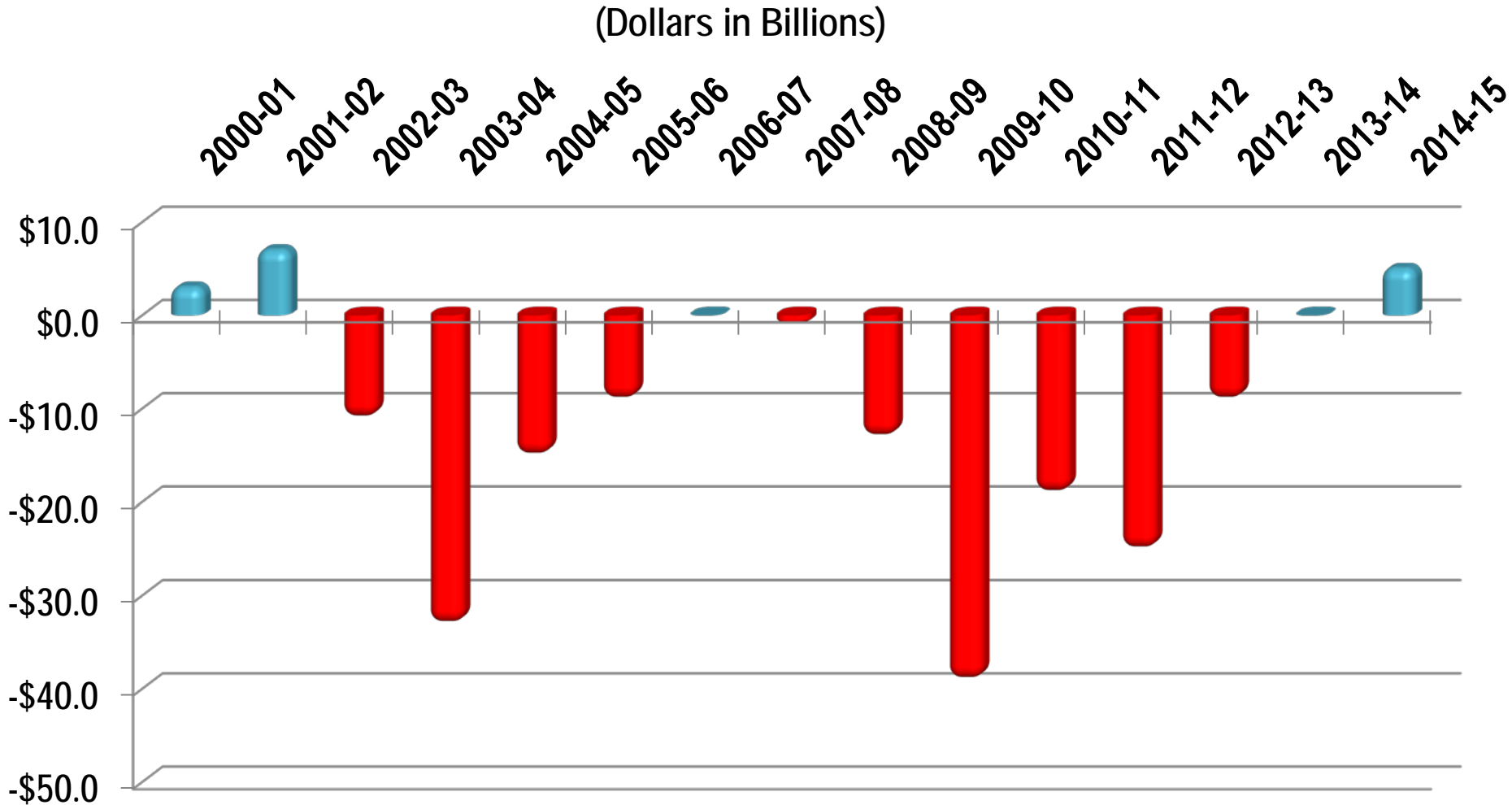
California's Unemployment Rate

Unemployment Rate



Small Recovery Begins After Decade of Deficits

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What's Not in the Budget?

- What the Budget does not address:
 - No proposal for a statewide school facilities bond
 - No new funding to address the unfunded liability in the California State Teachers' Retirement Systems (CalSTRS) fund
 - No new funding to address special education shortfalls
 - No new funding for early childhood education
 - No payments on the prior-year state mandate credit card

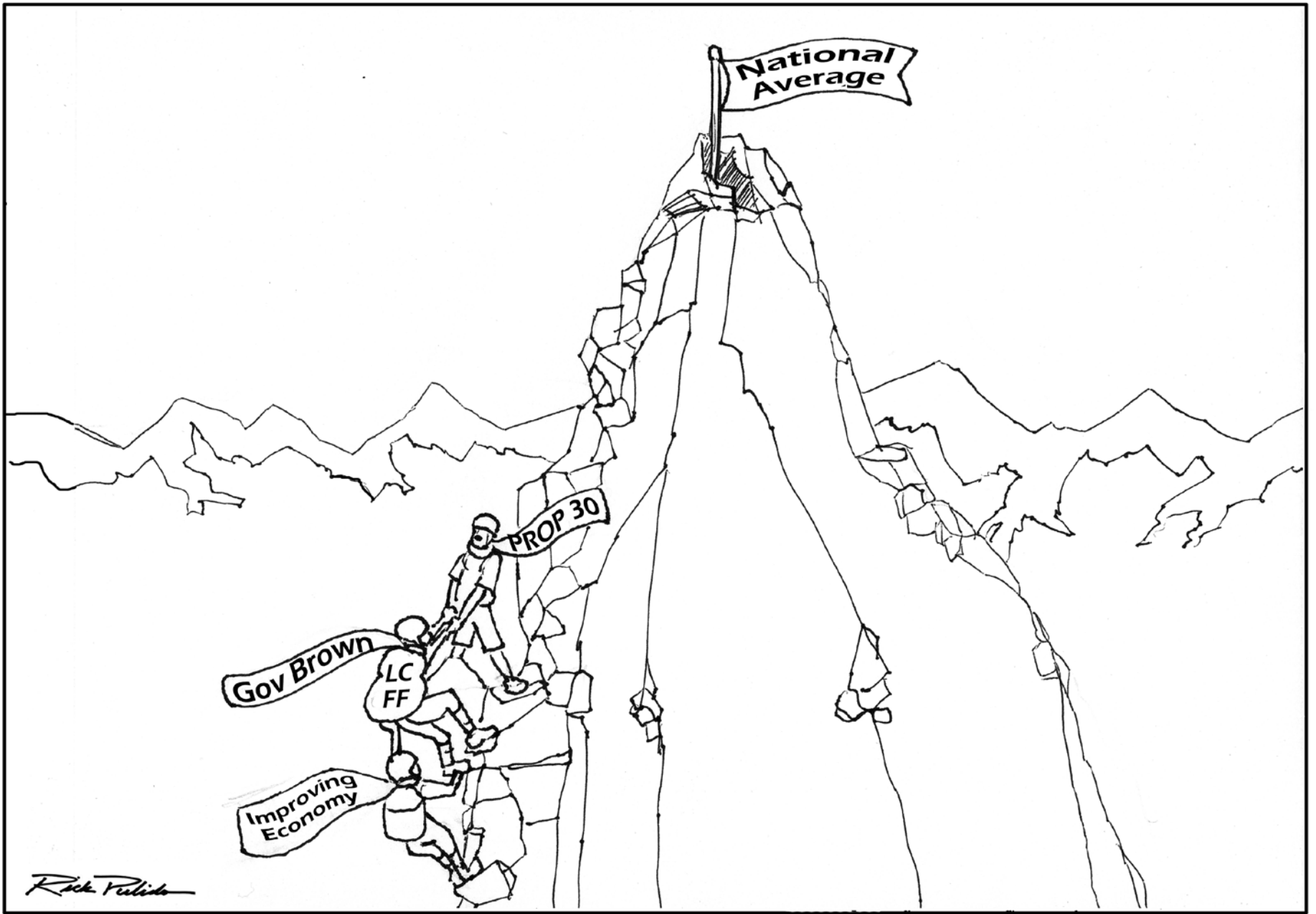
Current Expense of Education Per ADA Ranking of the States – 2011-12

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Ranking	State	Current Expense Per Student (Adjusted for Regional Cost Differences)	Percentage of National Average
1	Wyoming	\$19,534	165%
2	Alaska	\$17,554	148%
3	Vermont	\$17,388	147%
4	New York	\$16,835	142%
5	Maine	\$15,063	127%
6	New Jersey	\$14,920	126%
7	Rhode Island	\$14,794	125%
8	Connecticut	\$14,751	124%
9	New Hampshire	\$14,556	123%
10	Montana	\$14,489	122%
	<i>United States</i> ¹	<i>\$11,864</i>	<i>100.0%</i>
49	California	\$8,341	70%

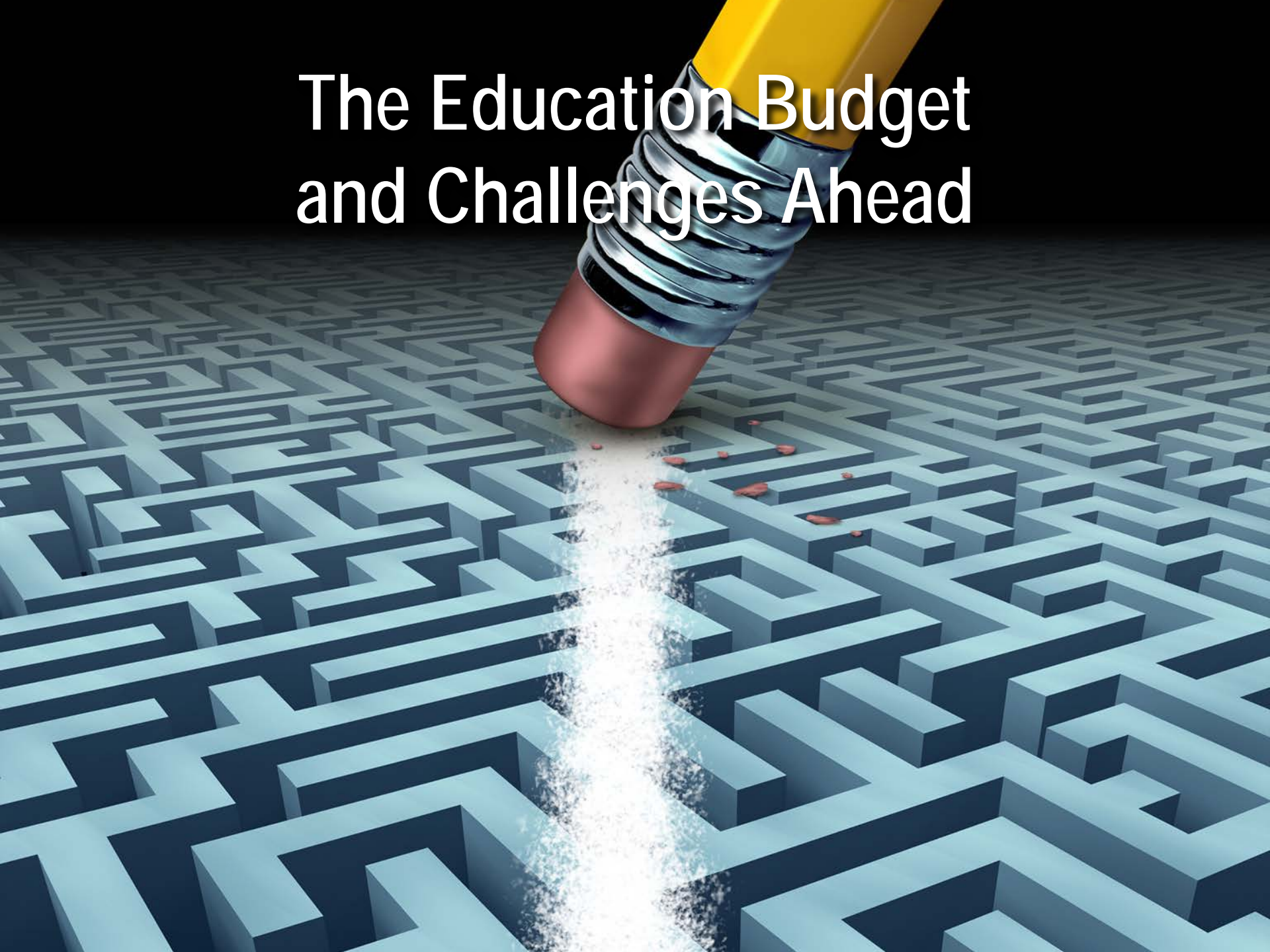
Source: Education Week Quality Counts 2014 – January 9, 2014

¹United States Average includes the District of Columbia



Rick Pulido

The Education Budget and Challenges Ahead



Proposition 98: How Much in 2014-15?

- \$61.6 billion in K-14 Proposition 98 funds are available for 2014-15
- This is a \$6.3 billion increase – 11.4% over the 2013-14 budgeted level
 - On average, \$751 per ADA ongoing is K-12 education's share
- In addition, \$3.3 billion more is provided in one-time funding from prior years
 - \$1.8 billion from 2012-13
 - \$1.5 billion from 2013-14

K-12 Proposition 98 Proposals for 2014-15

- \$5.5 billion of one-time and ongoing Proposition 98 to fully eliminate interyear K-12 apportionment deferrals in 2014-15
- \$4.472 billion in additional funding for school districts and charter schools to continue implementation of the LCFF
- \$25.9 million to complete the implementation of the COE LCFF
- \$316.5 million to support Proposition 39 energy efficiency projects
- \$33.3 million to fund a 0.86% statutory cost-of-living adjustment (COLA) for categorical programs that remain outside of the LCFF
- \$74.3 million to fund projected growth in charter school ADA
- \$46.5 million for assessment costs associated with implementation of CCSS
- \$188.1 million for the Emergency Repair Program (ERP) from one-time Proposition 98 funds

2014-15 Local Control Funding Formula

- Budget proposes \$4.5 billion for continued implementation of the Local Control Funding Formula (LCFF)
- New funding is estimated to close the gap between 2013-14 funding levels and LCFF full implementation targets by 28.05%
- Combined with elimination of 11.78% of the gap in 2013-14, the new formula would be over one-third of the way toward implementation in the first two years
- 2014-15 LCFF growth provides an average increase in per-pupil funding of 10.9%, or \$751 per ADA
 - Individual LEA experiences will vary

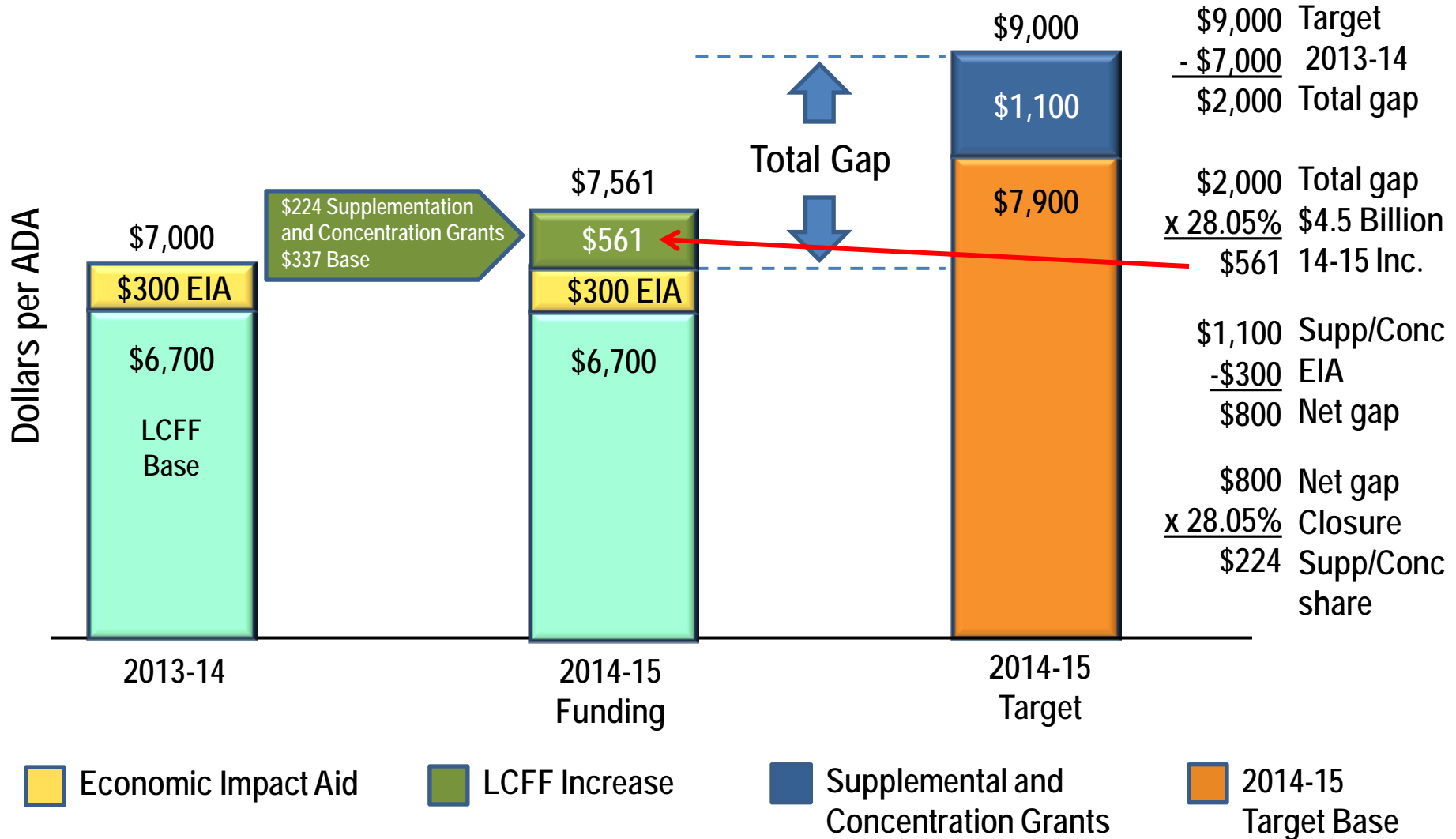


- The LCFF makes fundamental changes to how we allocate state Proposition 98 revenues to schools
- At full implementation, the LCFF will fund every student at the same base rate
- The LCFF provides two weighting factors applied against the LCFF base grant
 - 20% on behalf of each eligible student
 - An additional 50% for the eligible students exceeding 55% of total enrollment
- Each school district receives at least as much state aid in future fiscal years as the district received in 2012-13
- The LCFF continues the necessary small school funding adjustment for eligible school districts
- The LCFF provides an Economic Recovery Target to assure district funding is restored to 2007-08 levels, adjusted for inflation

- The LCFF statutes direct the State Board of Education (SBE) to develop regulations by January 31, 2014, to require LEAs to:
 - Increase or improve services for eligible pupils in proportion to the increase in funds apportioned on the basis of the number and concentration of eligible pupils
- LEAs are also required to include in their LCAP a description of expenditures that serve pupils eligible to generate supplemental and concentration grants
 - Goals, activities, and services that increase or improve support for eligible students is a local decision
- The proportion of the increase in funds attributable to the number of eligible pupils enrolled is a calculation
 - It is important to keep this distinction in mind, and it is why we are calling supplemental and concentration grant funding targeted, rather than restricted

- Recently proposed SBE regulations provide a method of calculating the proportional share of LCFF dollars that are attributable to supplemental and concentration grants each year
- Proportionality calculation and the Local Control and Accountability Plan (LCAP) will be taken up for a vote by the SBE on January 16, 2014
- Calculation of proportional increase for supplemental and concentration grants is specific
- LCAP is flexible, providing significant local control over services, activities, and plan content

An Example of Gap Funding Per ADA



Use of Supplemental/Concentration Grants

- The proposed LCFF regulations would provide districts varying degrees of latitude in the expenditure of supplemental/concentration grant funds, depending upon the percentage of eligible students
- If the district has unduplicated counts of the following:
 - Greater than 55%, then these funds may be spent on a districtwide basis, provided the district
 - Identifies the districtwide services
 - Describes how these services meet the district's goals for the targeted students in the state priority areas
 - Less than 55%, districtwide expenditure of these funds is authorized, provided the district
 - Identifies the districtwide services
 - Describes how these services meet the district's goals for the targeted students in the state priority areas
 - Describes how these services are the most effective use of the funds

Use of Supplemental/Concentration Grants

- The proposed regulations also address school site enrollment and the authorized use of these funds
 - A district that has a school with an enrollment of eligible pupils in excess of 40% of the school's total enrollment, the district may expend the targeted funds on a schoolwide basis, provided the district
 - Identifies the schoolwide services
 - Describes how these services meet the district's goals for the targeted students in the state priority areas
 - A district that has a school with an enrollment of eligible pupils less than 40% of the school's total enrollment, the district may expend the targeted funds on a schoolwide basis, provided the district
 - Identifies the schoolwide services
 - Describes how these services meet the district's goals for the targeted students in the state priority areas
 - Describes how these services are the most effective use of the funds

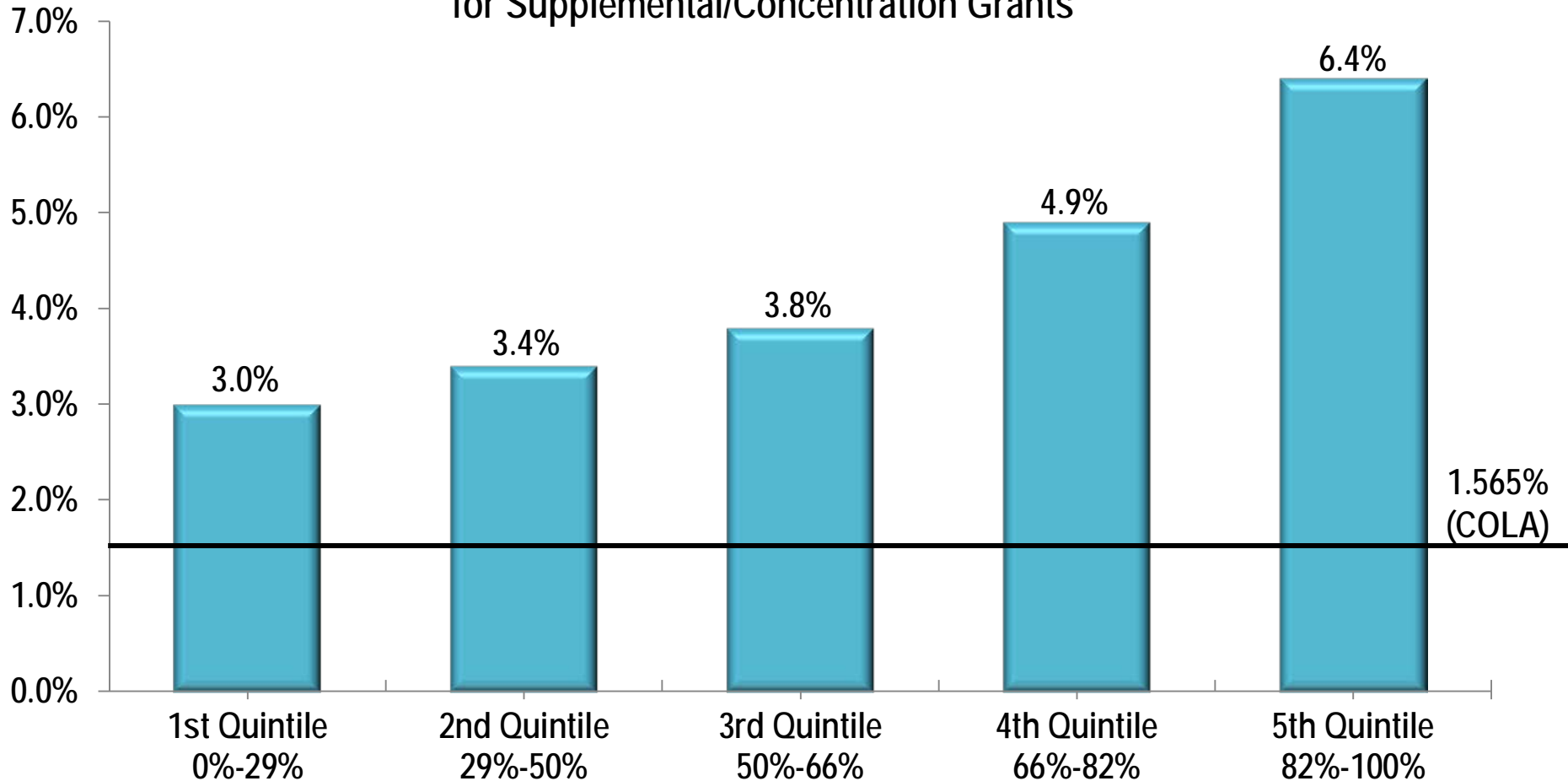
- 2013-14 is the first transition year toward full implementation of the LCFF
- Districts will not have developed and adopted their LCAP until 2014-15
- Don't be overly concerned about how funds are used, but . . .
 - Once regulations are adopted, your actions will have to be consistent with those requirements going forward
 - If your direction is wrong this year, you may need larger corrections next year
 - Be thoughtful about how you use new dollars for districtwide purposes, and about how you will demonstrate additional support for eligible students with those dollars that you do receive on their behalf

What Are the Distributional Impacts of the LCFF?

- During the eight-year implementation phase, there are major distributional consequences of the LCFF
 - Once fully implemented, all districts will share equally in any new state funding provided for COLAs or enhanced funding levels
 - Prior to full implementation, however, there are major differences in funding increases among districts statewide
- What are the distributional consequences of the LCFF?
 - Size of district
 - Percent eligible for supplemental/concentration grants
 - Type of district

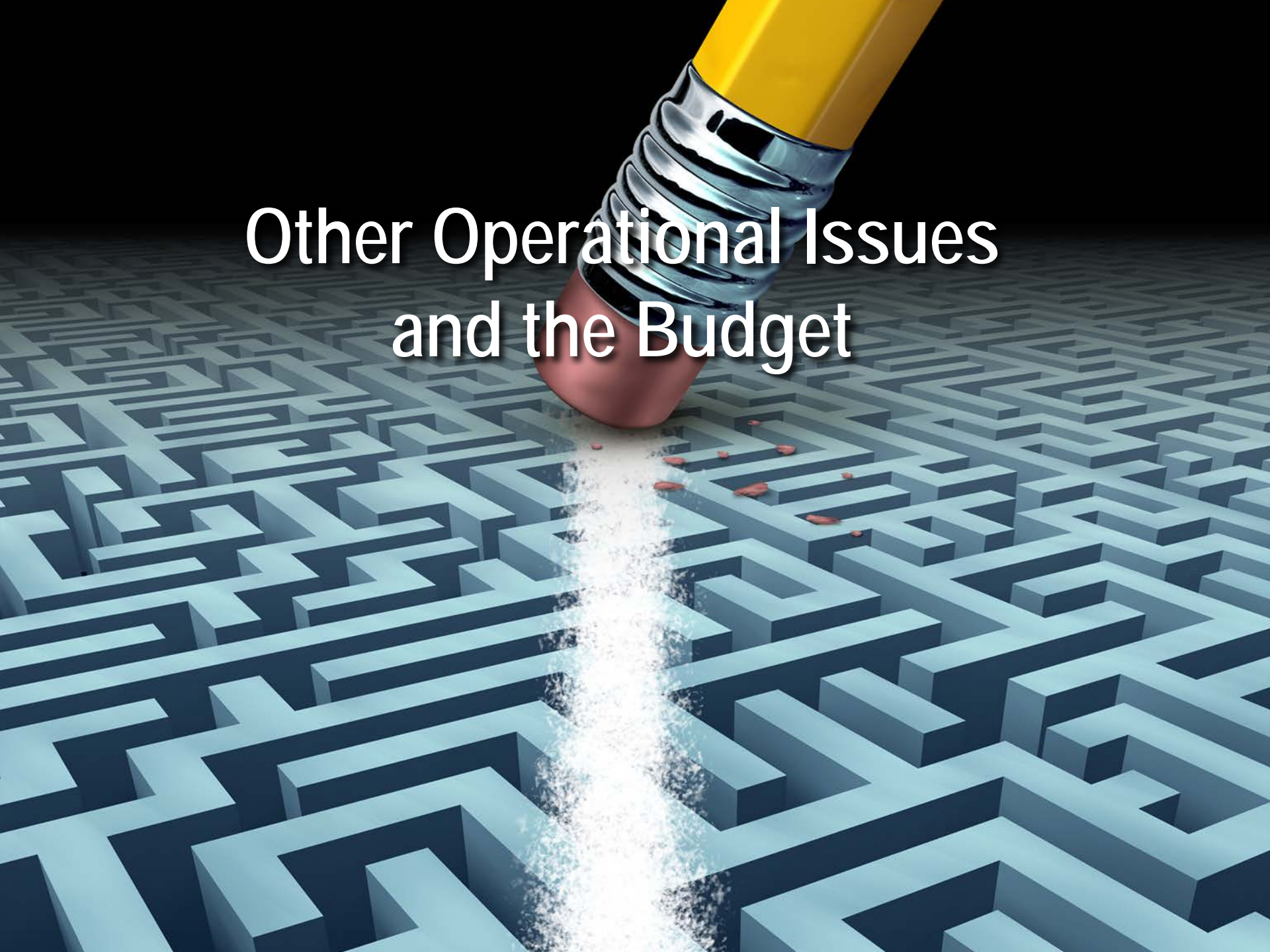
LCFF Funding and High Needs Students

Average Percent Increase by Percent Eligible for Supplemental/Concentration Grants



- Small districts experience little gain under LCFF, most likely because of prior-year funding received under the necessary small schools adjustment and pre-existing revenue limit differentials
 - Otherwise, the new model is neutral with respect to both district size and district type
- The long-term implications of the LCFF are profound
 - At full implementation, districts with the greatest concentrations of eligible students will have about 20% more funding per ADA than the average district
 - Districts with the lowest concentration of eligible students will have about 6% less funding per ADA than the average district

- The Governor does not propose any changes to the 2013-14 Budget agreement for Adult Education Programs
 - LEAs must maintain at least the same level of Adult Education expenditures in both 2013-14 and 2014-15
- The Governor indicates his “intention to make an investment in Adult Education programs (including programs provided in county jails) through a single categorical program” beginning 2015-16
 - No details are provided, but the Governor indicates he intends to work jointly with the California Department of Education and Community Colleges Chancellor's Office to “complete the adult education consortia plans, while working with the Legislature to ensure that any legislation pertaining to adult education aligns with and supports the planning process currently underway, and provides consistent guidance to K-12 and community college districts.”

A 3D-rendered maze of light blue blocks. A yellow pencil with a silver eraser and a red eraser tip is positioned at the top center, shining a bright white light through the maze. The light illuminates a path through the maze, with some small red particles scattered along the path. The text "Other Operational Issues and the Budget" is overlaid in white on the upper part of the maze.

Other Operational Issues and the Budget

SSC Financial Planning Dashboard

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Factor	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
LCFF Planning Factors	SSC LCFF Simulator [®]	SSC LCFF Simulator [®]	SSC LCFF Simulator [®]	SSC LCFF Simulator [®]	SSC LCFF Simulator [®]	SSC LCFF Simulator [®]
Statutory COLA	1.565%	0.86%	2.20%	2.40%	2.60%	2.70%
California Consumer Price Index	2.00%	2.20%	2.40%	2.70%	2.80%	2.60%
Ten-year Treasuries	2.90%	3.20%	3.40%	3.50%	3.70%	3.50%

Reserves

State Reserve Requirement	District ADA Range	Reserve Plan
The greater of 5% or \$50,000	0 to 300	SSC recommends one year's increment of planned revenue growth
The greater of 4% or \$50,000	301 to 1,000	
3%	1,001 to 30,000	
2%	30,001 to 400,000	
1%	400,001 and higher	

- The Deferred Maintenance program is now permanently part of the LCFF base grant
 - Funds may be used for any educational purpose
 - No local contribution is required to receive the funds
- LEAs should:
 - Evaluate deferred maintenance needs
 - Include deferred maintenance and other capital facilities needs in the context of the entire budget
 - Remember that we need safe, clean, and functional school facilities in order to support the learning environment
- Compliance requirements do not cease to exist when the state eliminates the categorical program
 - Williams Settlement
 - Program Improvement status/requirements

School Facilities Issues – Routine Restricted Maintenance

- The Governor's Budget Proposal does not change the minimum contribution requirement for routine maintenance
- Though the budget flexibility that reduced or waived the minimum requirement has been in place since 2008-09, this flexibility expires at the end of 2014-15, and the 3% Routine Restricted Maintenance contribution requirement returns for 2015-16
- Keep in mind . . .
 - Priority 1 of the LCAP requires that school facilities be maintained in good repair as defined in the Education Code

School Facilities Issues – Routine Restricted Maintenance

- Currently, the majority of expenditures in this area are for:
 - Classified salaries and benefits
 - Materials and supplies to repair and maintain facilities
- Again, LEAs must consider the needs of the agency when planning General Fund expenditures
- We recommend LEAs establish staffing allocations and an expenditure budget for this critical function

Collective Bargaining Issues

- This will likely be a very challenging year for collective bargaining
 - There are too many issues, many new concepts, and very little time
- The typical District will be negotiating most of the following issues:
 - Restoration of past concessions
 - The effects of pension reform
 - Potential compensation increases
 - Professional development related to Common Core
 - The effects of the Affordable Care Act
 - Class-size reduction progress
 - Maintenance of Adult Education and Regional Occupational Program programs
- All of this on top of the time and energy needed to develop the LCAP
- We suggest that you set aside plenty of time to prepare and conduct purposeful negotiations

- Given the revenue gains in 2013-14 and the extraordinarily high level of funding proposed for 2014-15 through LCFF, most districts will be able to do something in terms of compensation increases and/or restoration of concessions
- But not all districts will be able to do more
 - Districts with heavy declining enrollment, low reserves and high levels of deficit spending may be asking for concessions, even as neighboring districts are giving raises
 - Districts with low numbers of LCFF-eligible students may find that step and column movement, health and welfare benefit cost increases, and deficit spending consume all new monies
 - Every district will have a different level of revenue and capacity for addressing compensation
- For most districts, restoration of concessions will be a top priority

How Much Money is Available?

- “You got 11%; you owe me 11%” will not work!
- Districts receive LCFF dollars for the base grant, the supplemental grant, and the concentration grant
 - The increase in the base grant is generated by all students and is available for expenditure for any legal purpose – good money for negotiations
 - The supplemental and concentration grants are dedicated to “increasing and improving services” for the students who generate the funding
 - If the parties plan to use supplemental or concentration grant funding for any purpose, they must answer the question, “why is this expenditure the most effective use of funds?”
- So, the parties need to be sure that the LCAP establishes a nexus between the use of funds for compensation and “increased and improved” services
- Our updated SSC LCFF Simulator® clearly shows the amount of the base grant increase vs. the total increase – use that as a starting point

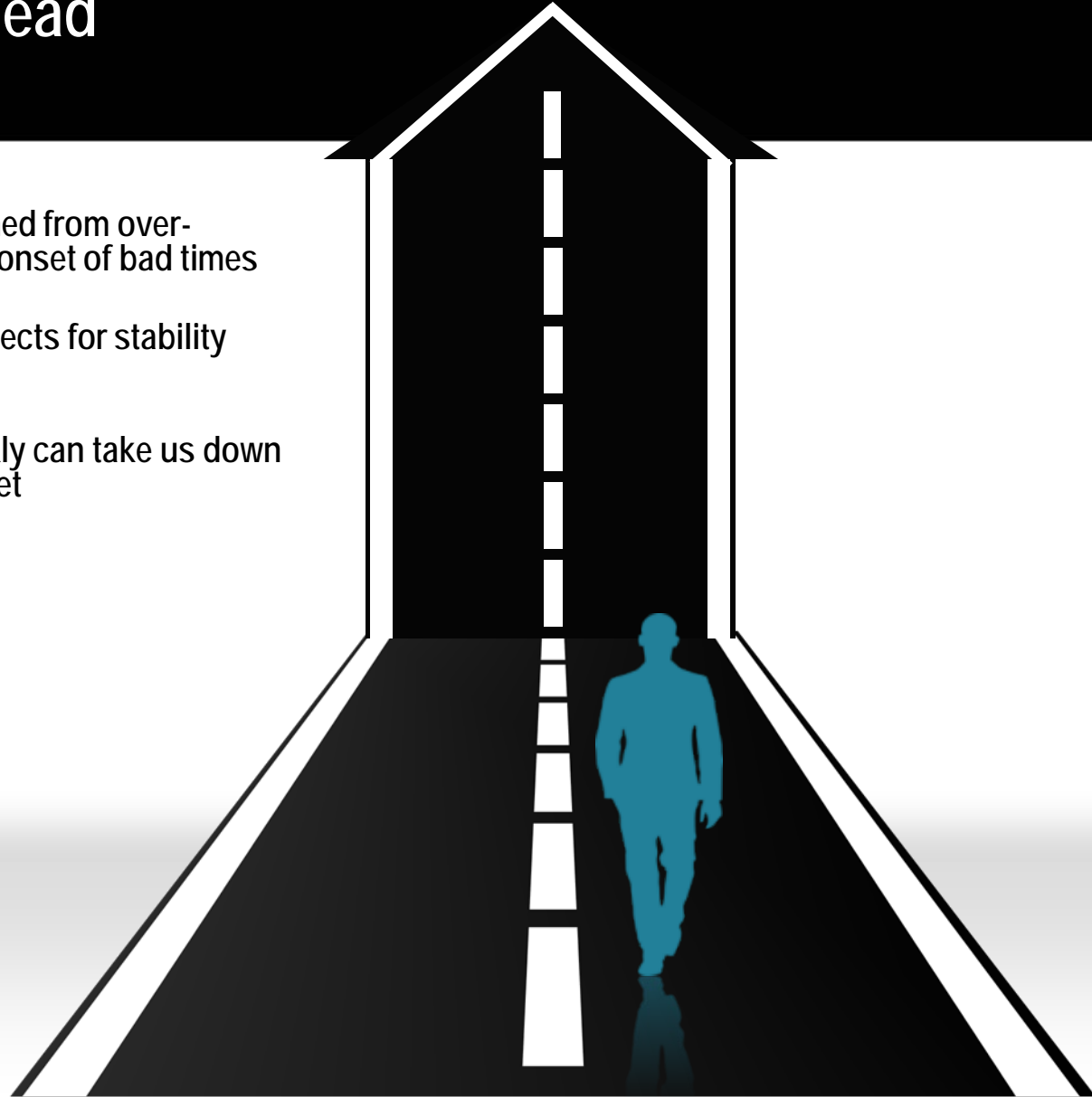
- Education wins big again this year due to an improving economy, the temporary taxes, and past program cuts
- The average increase for K-12 school districts will be 10.9%, or approximately \$751 per student
- This is the second year that the Governor proposes that the lion's share of new revenues be committed to education, to the exclusion of other major segments of the State Budget
- The Legislature will have a lot to say about the Governor's priorities and whether or not they agree with him
- The Governor's Budget Proposals do not mark the end of the Budget cycle – they mark the beginning



F-8

The Road Ahead

- Our past financial problems have stemmed from over-exuberance in good times – not just the onset of bad times
- It is important for us to look at the prospects for stability that underpin the Governor's proposals
- A rollercoaster that can take us up quickly can take us down just as quickly unless there is a safety net



A yellow pencil with a silver eraser is shown from a high angle, erasing a path through a complex, blue 3D maze. The eraser is in contact with the maze walls, and a bright, glowing trail of white particles follows the path it has just cleared. The maze is composed of many interconnected paths and dead ends, creating a complex, labyrinthine structure. The lighting is dramatic, with the eraser and the glowing trail being the brightest elements against the dark blue maze.

Questions and/or Comments