

Santa Monica-Malibu Unified School District

Board Of Education
2013-14 Budget Update

January 17, 2013
Agenda Item D.01.

Themes for 2013 Governor's Budget

- For the first time in five years, education funding goes up on a per-student basis – recovery starts now
- The Governor's proposed Weighted Student Formula of 2012 is reprinted as the Local Control Funding Formula (LCFF) and redistributes funding gains
- Passage of Proposition 30* provides opportunities and options

* Schools and Local Public Safety Protection Act of 2012 (sponsored by Governor Jerry Brown)

Governor's Proposals for the 2013-14 State Budget and K-12 Education

Education Receives More . . .

- The revenue limit deficit continues to be more than 20%, but for the first time since 2007-08 does not get larger
- The Governor continues to deal with the “wall of debt,” but does not dedicate all of the growth in Proposition 98 to this single purpose
- The Legislative Analyst's Office (LAO) forecasts that the Proposition 98 guarantee will grow at a 3.4% to 5.3% rate over the next several years

The Distribution Method is Different

- Along with slightly higher funding, the Governor proposes a different method of distribution – the LCFF
 - Revenue limits and categorical programs are replaced by base grants and supplemental grants over a phase-in period
 - The stated goal is to focus more resources on California's most needy students

Governor's Proposals for the 2013-14 State Budget and K-12 Education

Passage of Proposition 30 Provides Opportunities and Options

- The recent passage of Proposition 30 can be largely attributed to the Governor's leadership and the education community uniting for passage
- It provides a narrow window during which further Budget cuts are avoided and some hope of future gains is offered
- But this window is a temporary solution; how we use this opportunity matters
 - Thus far, state and federal sources of funding have been used to buffer those most negatively affected by the economic collapse
 - Now is the time to channel funding into those areas that truly make a difference in the long term
- Public education is a game changer
 - Now is the time for a shift in state policy toward preparation of our children for what is sure to be a challenging future

Economics Still Rule

- State policy is important, but the revenues that give the state options are driven by economics
- The economy is no longer shrinking, but it is not growing at a recovery rate
 - Employment numbers are still fragile
 - Both the state and federal governments face ongoing economic challenges
- The state has choices
 - Wait and hope for recovery?
 - Take actions that drive the recovery?
 - The Governor is trying to drive change
- Many of the problems we see are international, structural, and long term
- This economy is fragile and we need to treat it gently

Governor's Proposals for the 2013-14 State Budget and K-12 Education

More Funding Leads to Higher Expectations

- The first increase in per-student funding in five years creates higher expectations
 - Funding is still about 10% less than the amount received in 2007-08
 - The deficit factor is still more than 20% because of past cuts and unpaid cost-of-living adjustments (COLAs)
- But pent-up demand for dollars will be strong
- Under the LCFF, not all districts share equally in new dollars
- As a result, it is unlikely that all expectations will be met
 - We are still at the beginning of a turnaround, not the end

U.S. Economic Outlook

- The U.S. economy continues to be plagued by slow growth, even though the recession was officially declared over in June 2009
- The threat of falling off of the so-called “fiscal cliff” – \$600 billion in higher federal taxes and spending cuts – has been avoided in large part
 - The Congress and the President have agreed to avoid raising taxes on all but the top income earners
 - However, the payroll tax cut was allowed to expire
 - Still unresolved, however, are the scheduled cuts to federal programs
- Global trends pose new risks
 - The economies of Japan and European countries are in recession and previously growing economies of China, Brazil, and India are slowing
 - This threatens U.S. exports
- Domestic developments are mixed
 - Hurricane Sandy will depress near-term growth
 - Housing and employment continue to improve



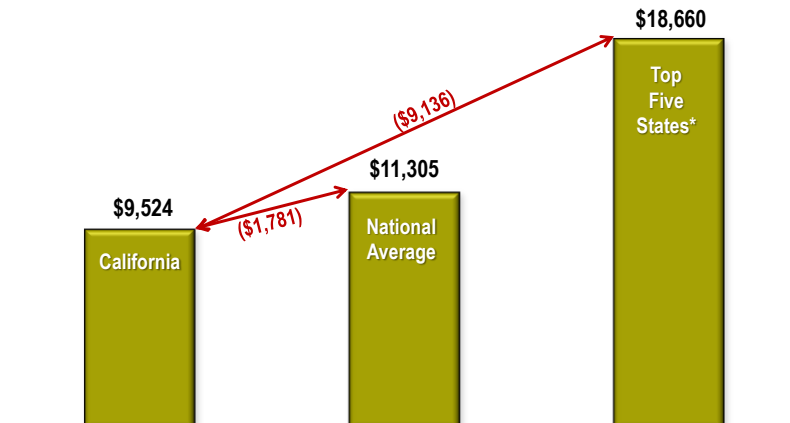
Governor's Proposals for the 2013-14 State Budget and K-12 Education

California Economic Outlook

- California's economy is recovering slowly like the U.S. economy
 - Housing is on the upswing, with the median home price up 24% to \$341,000 from the recession low of \$275,000 in 2009
 - However, this is still below the 2007 peak of \$560,000
 - The state has added about 564,000 jobs of the 1.4 million that were lost in the recession
 - The state's unemployment rate dropped to 9.8% in November 2012, compared to 7.7% for the U.S.
 - On average, California added about 22,300 jobs per month over the last 12 months
- California's economy is vulnerable to the global slowdown, especially because of its significant export sector

California's Education Spending

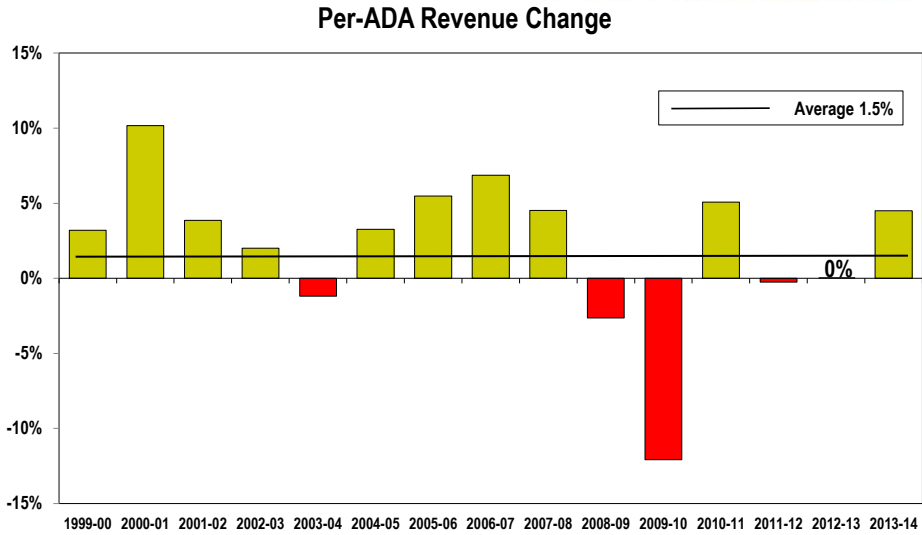
K-12 Education Expenditures per Average Daily Attendance (ADA)
2010-11



*Average of the five states with the highest expenditures per ADA
Source: National Education Association

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Per-ADA Revenue Volatility



California Lags the Nation

California's Schools Lag Behind Other States on a Number of Measures		
	California	Rest of U.S.
K-12 Spending Per Student (2010-11)	\$9,524	\$11,305
Staffing		
K-12 Students Enrolled Per Teacher (2010-11)	23.6	15.6
K-12 Students Per Administrator/Official (2009-10)	1,579	770
K-12 Students Per Guidance Counselor (2009-10)	810	459
K-12 Students Per Librarian (2009-10)	5,489	940

Note: Number of students per administrator, guidance counselor, and librarian are based on statewide enrollment
 Source: NEA and National Center for Education Statistics

Governor's Proposals for the 2013-14 State Budget and K-12 Education

Risks to the Budget Proposal

- Increased funding for K-12 education is dependent upon a continued improved economy in the state and the nation
 - State and national economic growth are far from certain
 - California tax revenues are heavily reliant (more than 60%) on personal income taxes – making individual incomes very important to the State Budget
- Rising health care costs will continue to strain the State Budget
- Outstanding budgetary borrowing totaling \$35 billion will continue to limit the amount of available resources
- Other budgetary priorities could threaten resources designated for the Governor's Budget Proposal

Proposition 98 Minimum Funding Guarantee

- One of three tests determines the level of the Proposition 98 minimum guarantee
- "Test 3" governs the guarantee in 2013-14
 - Test 3 increases the prior-year minimum guarantee based on percentage changes in ADA and in state General Fund revenues
- Minimum guarantee funding grows by \$2.7 billion, to a total of \$56.2 billion for 2013-14 – a 5% increase
 - \$2.4 billion of Proposition 98 funding used in 2012-13 to "buy back" interyear payment deferrals for K-12 schools and community colleges is also available

Governor's Proposals for the 2013-14 State Budget and K-12 Education

Revenue Limits and Local Control Funding Formula

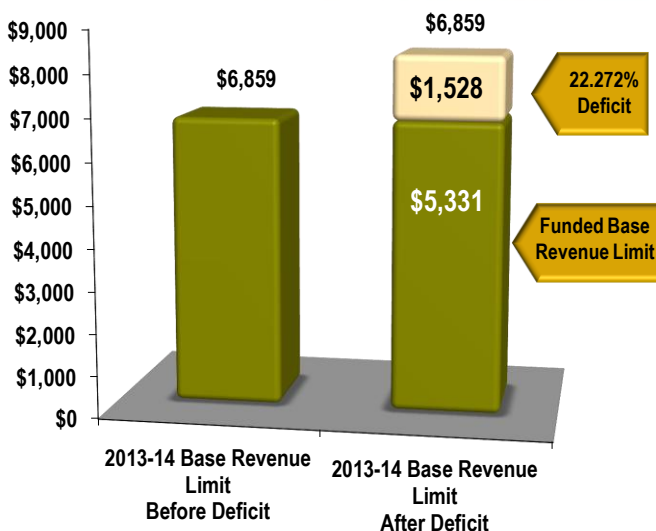
- The Governor proposes a sweeping reform of the state's school finance system with the LCFF
- The Governor's Budget makes no reference to current law and revenue limit funding
 - There is no direct reference to the statutory COLA
 - However, the Budget acknowledges providing a 1.65% COLA for selected categorical programs and sufficient funding to increase support for LEAs by 4.5% under the LCFF
 - There is no reference to the current 22.272% deficit factor
- Nevertheless, until state law is changed, revenue limits are the means by which state apportionment aid is distributed to LEAs statewide

Base Revenue Limit After Deficit Factor

- Apply the 2013-14 deficit of 22.272% to the undeficit base revenue limit

Example for Average Unified District:

Funded revenue limit
 = $\$6,859 \times (1 - 0.22272)$
 = $\$6,859 \times 0.77728$
 = $\$5,331$



Governor's Proposals for the 2013-14 State Budget and K-12 Education

Major LCFF Elements

- The LCFF would replace revenue limits and most categorical program funding
 - Funding allocated through the formula would generally be flexible and could be used for any educational purpose
- Elements of the proposed formula
 - A base grant target equal to the undeficitated statewide average base revenue limit per ADA – \$6,816 (includes the 1.65% statutory COLA)
 - Differential adjustments for early primary, primary, middle, and high school grade spans; added funding for K-3 Class-Size Reduction (CSR) and 9-12 Career Technical Education (CTE)
 - Additional funding based on the demographics of the schools, including:
 - English Learner population
 - Pupils eligible for free and reduced-price meals
 - Foster youth

LCFF and Categorical Programs

- Elements of the formula (continued):
 - Special Education, Child Nutrition, QEIA, After School Education and Safety (ASES), and other federally mandated programs are not included in the formula
- Transportation and Targeted Instructional Improvement Grant (TIIG) funding continue as add-ons to the formula for those school districts that currently receive funding through these programs
 - And the funds can be used for any educational purpose
- Timeline: Phased in over seven years – completed in 2020-21

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How Much Is Funded?

- Fully funding the new formula in 2013-14 would cost more than \$15 billion
 - Governor's Proposal sets aside \$1.6 billion
 - A 10% proration factor provides a reasonable estimate, but as more details about the proposal emerges the estimates could change
- Department of Finance staff expect to provide estimates of LEA funding under the Governor's Proposal within the next few weeks
- Most categorical funds are kept in the base, but programs go away

Where Does the Proposal Stand Now?

- There are currently insufficient details to allow a school district to determine its funding under implementation of the LCFF for 2013-14, or for any year thereafter
- The Legislature must enact this measure as a change to current school finance statutes
- We will provide more information as the details of this proposal are released

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Budget Contingency Plan

- The Governor's Budget assumes that his new LCFF is passed in the Legislature
- There is much to learn about the LCFF proposal, and it is uncertain what would happen to the resources dedicated to the proposal if it does not pass the Legislature
- This leaves schools in a position of needing at least two plans
 - Governor Brown's Proposal: Increased funding – 1.65% COLA plus additional revenues associated with the factors in the LCFF
 - A budget for 2013-14 that includes the COLA, less the additional revenues associated with the LCFF
- Districts will need to plan for both eventualities until the details and the fate of the LCFF becomes clear

Road to Adoption

- As is true every year, the Governor's Budget Proposals mark the beginning – not the end – of the process
 - Both houses of the Legislature will consider the financial and policy implications of the Governor's plan
 - Over the next several months, we will hear reasons for both support and resistance to the Proposal on either a financial or policy basis
 - Governors, including this one, have modified or even dropped proposals they strongly support in order to achieve a greater goal
- The May Revision will surely be different than the economic picture upon which the Budget is based – will it be better or worse?

Questions?

