OAKLAND UNIFIED SCHOOL DISTRICT
Governor's Budget Proposal for 2013-14
Board Presentation on January 23, 2013

School Services of California INC.™

V 8

Themes for 2013 Governor's Budget

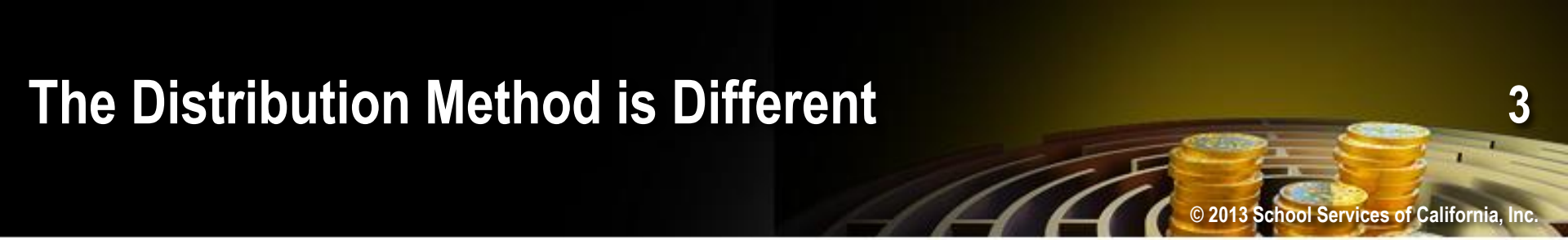
- For the first time in five years, education funding goes up on a per-student basis – recovery starts now
- The Governor's proposed Weighted Student Formula of 2012 is reprised as the Local Control Funding Formula (LCFF) and redistributes funding gains
- Passage of Proposition 30* provides opportunities and options
- Economics still place boundaries on funding expectations
- Even slightly higher funding drives expectations to an unrealistic level
- Our state has suffered greatly from the Great Recession
  - We have proven we can survive it
  - But can we thrive and regain our competitive advantages?
- We still have plenty of challenges, but there are opportunities to be seized as well
- As in the ancient proverb, "Will our children learn to be dependent on others or will we choose to teach them to fish and make them independent?"

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

Education Receives More . . .

- For the first time in five years, local educational agencies (LEAs) will see an increase in per-student funding
  - The revenue limit deficit continues to be more than 20%, but for the first time since 2007-08 does not grow
  - 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
    - Other forecasts have proven to be overly optimistic
    - But even if this forecast proves to be correct, a continuation of past manipulations of Proposition 98 could strangle education funding
- Our past "glory years" were fueled by one of the most highly educated workforces in the world
- We have a long way to go if we are to recapture that reputation

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
- But by any measure, all of California's students receive resources far below the average of other states
- The level of funding has to be addressed first
  - All districts need to be able to offer programs, not just at the currently depressed level, but at a level that advances the achievement of all students
- It is a mistake to simply redistribute funding unless there is a commitment to higher funding as well
- If California remains at the bottom of state rankings in funding, any distribution mechanism will fail

U.S. Economic Outlook

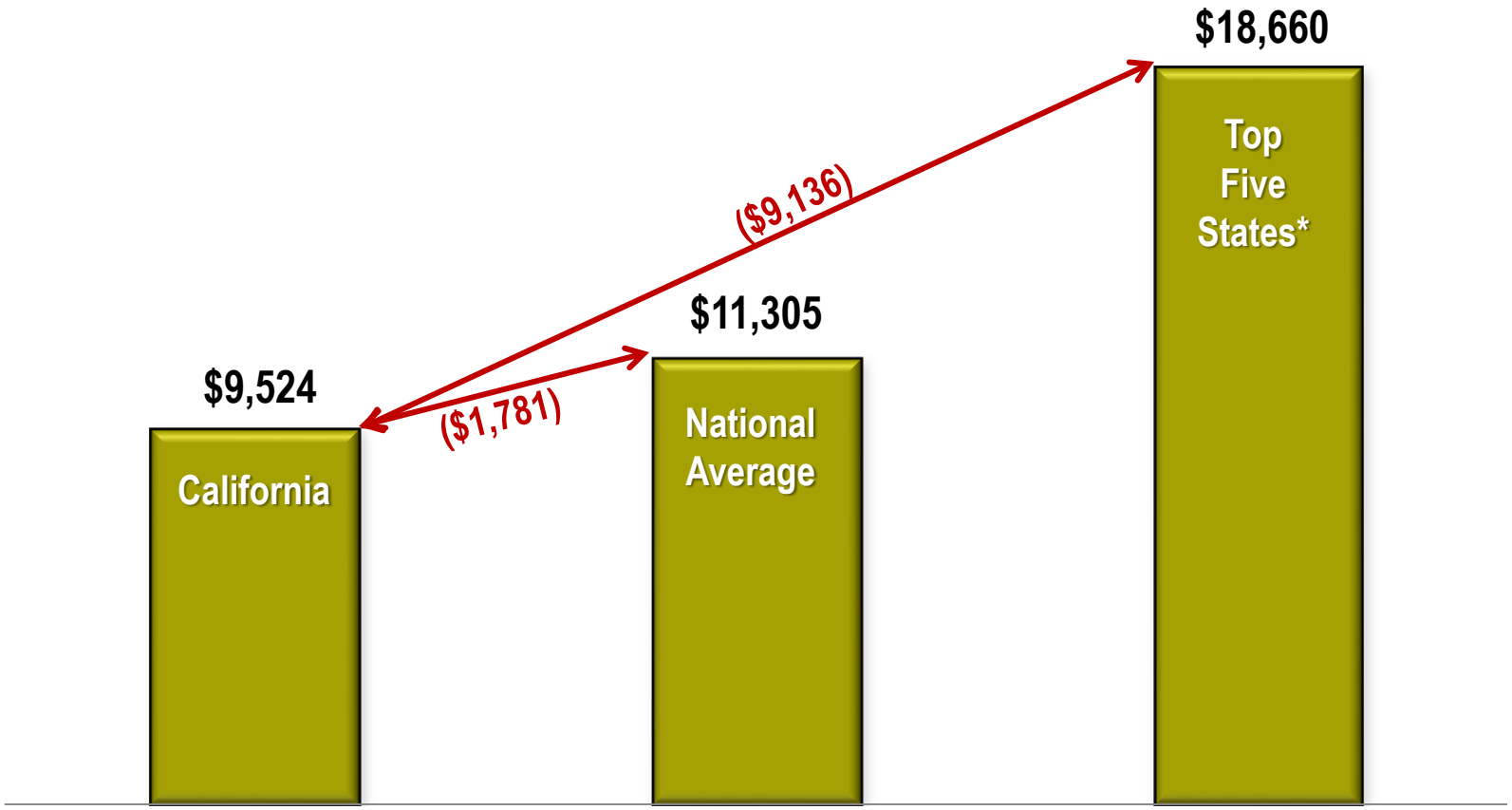
- The U.S. economy continues to be plagued by slow growth, even though the recession was officially declared over in June 2009
- The threat of falling off of the so-called "fiscal cliff" – $600 billion in higher federal taxes and spending cuts – has been avoided in large part
  - The Congress and the 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

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

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

- Major Proposition 98 budget changes for K-12 education include:
  - $1.8 billion to reduce interyear deferrals to $5.6 billion
  - $1.6 billion to begin implementation of a new school finance formula (LCFF) for school districts and charter schools
  - $400.5 million to support energy efficiency projects in schools from Proposition 39 revenues
  - $100 million increase for the K-12 Mandate Block Grant to fund the Science Graduation Requirement and Behavioral Intervention Plan mandates
  - $62.8 million for a 1.65% COLA for selected categorical programs
  - $48.5 million for charter school ADA growth
  - $28.2 million to begin implementation of a new funding formula for county offices of 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

2013-14 Revenue Limit Factors

- For 2013-14, the estimated COLA is 1.65%

	Statutory COLA	
District Type	2012-13 3.24% (actual)	2013-14 1.65% (estimated)
Elementary	$202	$106
High School	$243	$128
Unified	***$212***	***$111***

- The 2013-14 Governor's Budget proposes to fund enrollment growth of 5,967 ADA
- In order to fund the COLA in 2013-14, the deficit factor would remain unchanged at 22.272%

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 undeficited unique 2012-13 OUSD base revenue limit per ADA – and adding the 2013-14 1.65% statutory COLA of $111
  - Differential adjustments for early primary (K-3), primary (4-6), middle (7-8), and high school (9-12) 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
- The new formula will allocate funds to charter schools in the same way as for school districts
  - However, concentration grants for charter schools will be limited to no more than the concentration grant increase provided to the school district where the charter school resides
- Timeline: Phased in over seven years – completed in 2020-21

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
- More information will be provided as the details of this proposal are released

How does the calculation work?

"Simple" version of the entitlement calculation:

Step 1:

Base Grant amount under new proposal =
(Grant per each grade span + CSR add-on $710 only for grade span K-3 + CTE/ROP add-on $215 only for grade span 9-12) x ADA % for each grade span + Supplementals (Step 8) + Concentrated Grants (Step 9) + Add Ons of Transportation and TIIG

Step 2:

Take 12-13 Deficited OUSD Revenue Limit

Step 3:

Take categorical programs included under the LCFF (most of Tier I, II, and III)

Step 4:

Estimate of 13-14 Funding before Funding Gap = Step 2 + Step 3

How does the calculation work?

"Simple" version of the entitlement calculation (continued):

Step 5

Total Funding Gap Calculation
Base Grant Calculated in Step 1 -
Estimate of 13-14 Funding before Funding Gap in Step 4 =
Total Funding Gap
(Step 1 – Step 4)

Step 6:

13-14 Funding Gap = Total Funding Gap x 10%
(Step 5 x 10%)

How does the calculation work?

"Simple" version of the entitlement calculation (continued):

Step 7

Proposed Funding for OUSD for 2013-14 =
Base Grant Calculated in Step 4 +
Funding Gap Calculated in Step 6
(Step 4 + Step 6)

How does the calculation work?

"Simple" version of the entitlement calculation (continued):

Step 8

Calculate Supplemental amounts

Supplemental Amount =

(Base Grant per each grade span) x 35% x district-wide population % of EL and Free & Reduced Meal students x

ADA% for each grade span

Step 9

Calculate Concentrated Grant amounts

Concentrated Grant Amount =

(Base Grant per each grade span) x 35% x (district-wide population % of EL and Free & Reduced Meal students - 50%) x ADA% for each grade span

Adult Education

- Governor proposes shifting responsibility for Adult Education programs from K-12 school agencies to community colleges effective 2013-14
  - Proposal establishes a new $300 million block grant
    - Funding would be allocated based on the number of adults served and funds could only be used for core instructional areas:
      - Vocational education, English as a second language, elementary and secondary education, and citizenship
      - "Mission" courses such as basic skills and workforce training
    - Students would be required to pay the full cost of all other courses
    - Community colleges are "encouraged to leverage the capacity and expertise currently available at K-12 district adult schools"
- In addition, the Governor's Proposal shifts $15.7 million along with the responsibility for the Apprenticeship Program from school districts to community colleges

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
- When in doubt, we craft our recommendations around current law
- The reaction and actions of the Legislature may cause us to modify our recommendations later as proposals are fleshed out and tested
- The May Revision will surely be different than the economic picture upon which the Budget is based – will it be better or worse?

Democrat Supermajority

- With two-thirds control in both houses, legislative Democrats can pass legislation without Republican votes, including:
  - Tax and fee increases
  - Constitutional amendments
  - Statewide bonds
  - Democrats can also override a Governor's veto
- One idea already being considered is Senate Constitutional Amendment 3 (Leno, D-San Francisco), which would reduce the threshold for passing parcel taxes to 55%
- However, new electoral dynamics (top-two primary, new legislative boundaries) could make some votes politically difficult

Questions?

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Appendix

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2013-14 Governor's Budget
General Fund Budget Summary (In Millions)

	2012-13	2013-14
Prior-Year Balance	-$1,615	$785
Revenues and Transfers	$95,394	$98,501
Total Resources	$93,779	$99,286
Total Expenditures	$92,994	$97,650
Fund Balance	$785	$1,636
Budget Reserve:		
Reserve for Encumbrance	$618	$618
Reserve for Economic Uncertainties	$167	$1,018
Budget Stabilization Account	$0	$0
Total Available Reserve	$167	$1,018

- Revenues and transfers increase 3.3%, while expenditures increase 5% in 2013-14
- The current-year reserve drops from $948 million to $167 million
- The 2013-14 reserve of $1,018 million is 1% of revenues and transfers

Source: 2013-14 Governor's Budget