



# State Budget Update

## Approach to 2013-14 SAUSD Budget Development

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# Discussion Items

- **Themes for the Governor's Budget**
- **Proposition 98**
- **Major LCFF Elements**
- **Key Budget Assumptions**
- **District Budget Overview – Based on Governor's 2013-14 Budget**
- **Next Steps/Timeline**

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# Themes for the Governor's Budget



- For the first time in five years, education funding goes up on a per-student basis.
- The Governor's proposed Weighted Student Formula of 2012 is recast as the Local Control Funding Formula (LCFF) and redistributes funding gains
- Passage of Proposition 30 provides opportunities
  - Avoids further budget cuts
  - Temporary solution
- Economics still place boundaries on funding expectations

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# 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

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# Slow Labor Market Recovery

- Economics still drive the State Budget and the ability to modify policy
  - Economy growing at a slow rate and still fragile
- According to the LAO, the state lost about 1.4 million jobs, or about 9%, in the Great Recession and may not reach its prerecession employment peak until 2015
  - A span of over seven years
- As a basis of comparison, the three most recent recessions saw much shorter periods to reach the prerecession employment peak

Years of Recession	Employment Loss	Years to Reach Prior Employment Peak
1981	4%	2.3 years
1990	4%	5.3 years
2001	2%	4 years

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# Risks to 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

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# 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

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# 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

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# 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

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# 2013-14 Revenue Limit Factors



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

District Type	Statutory COLA	
	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%

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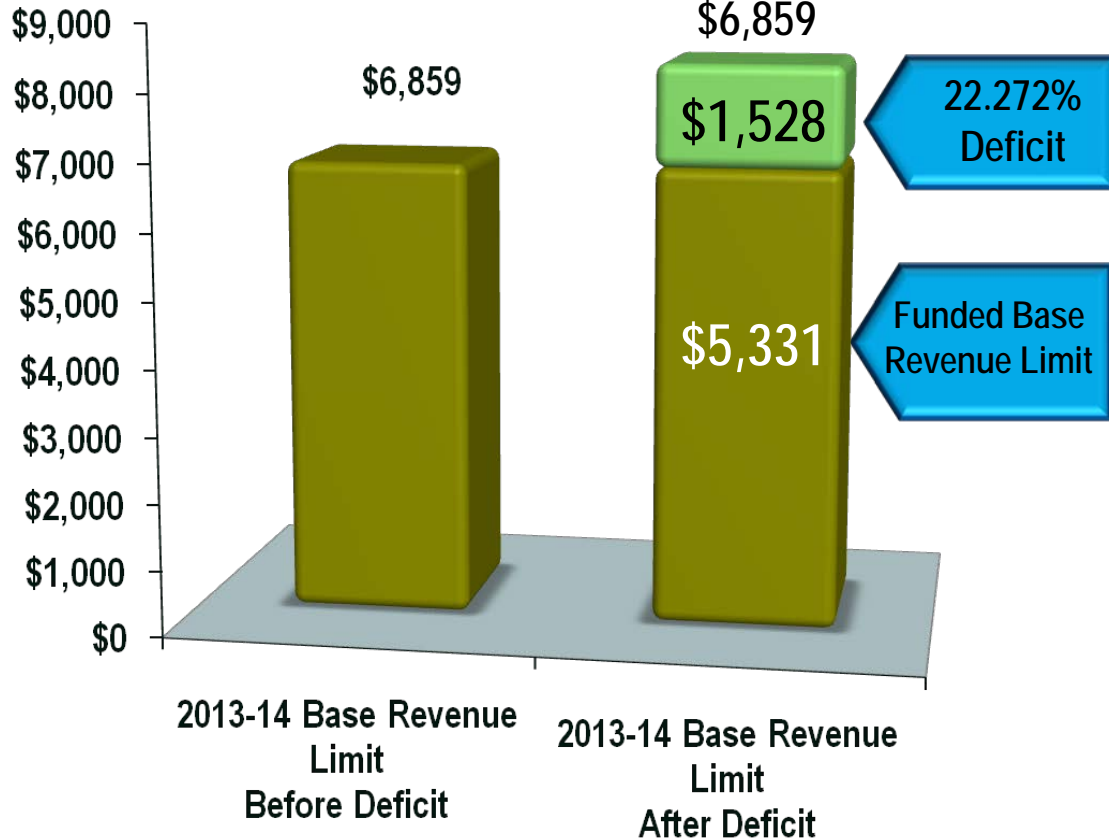
# Base Revenue Limit After Deficit Factor



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

## Example for Average Unified District:

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



State Data courtesy of School Services of California

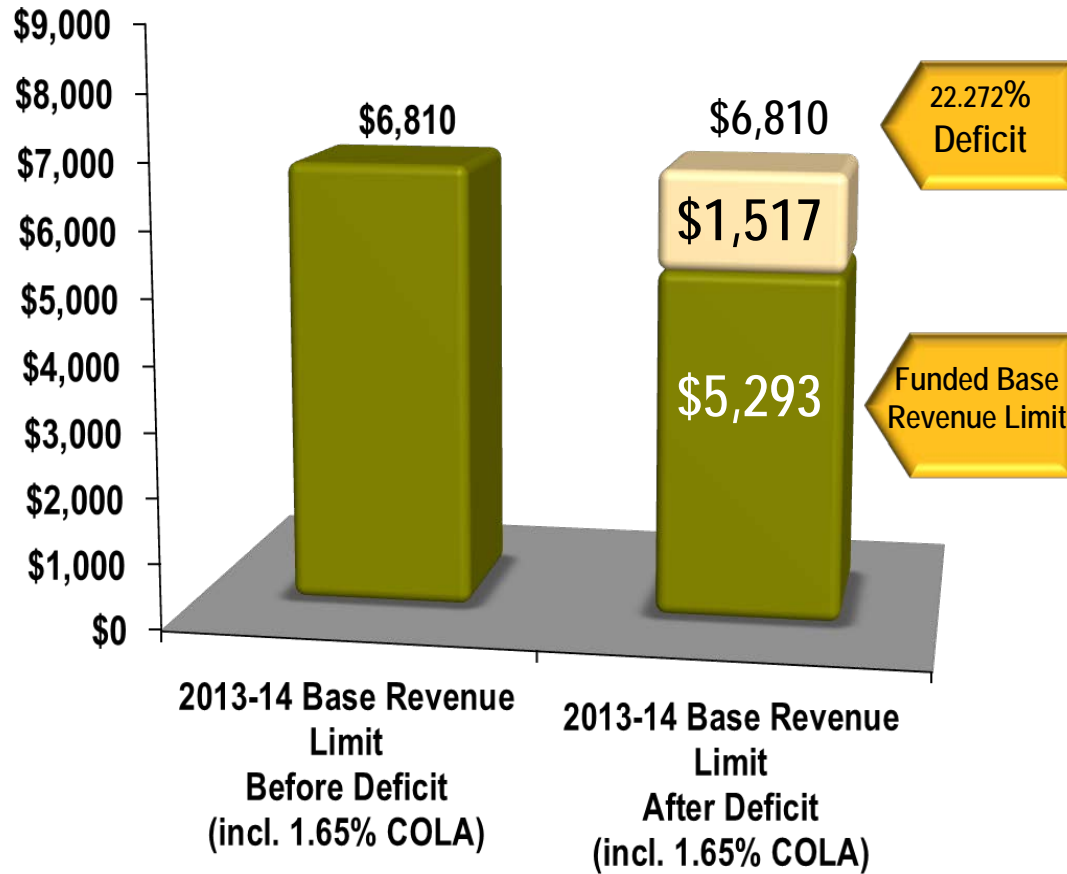
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# Base Revenue Limit After Deficit Factor



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



For Santa Ana Unified School District:

Funded revenue limit  
 = \$6,810 x (1 - 0.22272)  
 = \$6,810 x 0.77728  
 = \$5,293

NOTE: \$86 increase over 2011-12 (\$5,293-\$5,207)

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# 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

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# 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

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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

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# 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
- In the meantime, districts are advised to develop multiple budget plans
  - A: 1.65% Cola only
  - B: Approximately double the 1.65% Cola
  - C: If desired, incorporating LCFF

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# Key Budget Assumptions (PLAN A and PLAN B)

- Following are key budget assumptions for 2013-14 based on the Governor's Budget:

District's K-12 ADA	51,334.76	
COLA	Plan A: 1.65% Plan B: 3.30% (Plan A plus State's undistributed funds equaling to approx. 1.65%)	
Deficit	-22.272%	
Funded Base RL	Plan A: \$5,293 (\$86 increase) Plan B: \$5,379 (\$172 increase)	
Step and Column	2.01% for certificated 1.40% for classified	
Health and Welfare	Projected at 3% increase	
Staffing Levels	Kindergarten: 31:1 Grades 1-3: 30:1 Grades 4-5: 34:1	Grades 6-8: 33.5:1 Grades 9-12: 32.5:1
CPI Index:	2.30%	
Mandate Block Grant	Increase by approx. \$19 from \$28 to \$47 per ADA (approx. \$1M incr)	

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# District Budget Overview-Based on Governor's 2013-14 Budget



<b>PLAN A</b> Includes 1.65% COLA (approx. \$111/ADA)  (\$s in million)	2012-13 First Interim Budget [a]	2013-14 Before Governor's Proposed Budget [b]	2013-14 Based on Governor's Proposed Budget Incl. 1.65% COLA [c]	2013-14 Net Change [c] minus [b]
Beginning Fund Balance	\$ 70.6	\$ 45.6	\$ 45.6	
Revenues:				
Revenue Limit	\$ 276.8	\$ 274.6	\$ 279.0	\$ 4.4
Federal	\$ 65.9	\$ 52.3	\$ 52.3	
State	\$ 108.6	\$ 108.4	\$ 109.4	\$ 1.0
Other Local	\$ 8.5	\$ 8.5	\$ 8.5	
Total Revenues	\$ 459.8	\$ 443.8	\$ 449.2	\$ 5.4
Expenditures	\$ (490.2)	\$ (484.3)	(484.3)	
Other Financing Sources	\$ 5.4	\$ (6.6)	\$ (6.6)	
Net Increase (Decrease) in Fund Balance	\$ (25.0)	\$ (47.1)	\$ (41.7)	\$ 5.4
Ending Fund Balance	\$ 45.6	\$ (1.5)	\$ 3.9	\$ 5.4

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# District Budget Overview-Based on Governor's 2013-14 Budget



<b>PLAN B</b> Includes 1.65% COLA plus State undistributed funds equaling to approx. 1.65% COLA (approx. \$221/ADA) (\$s in million)	2012-13 First Interim Budget [a]	2013-14 Before Governor's Proposed Budget [b]	2013-14 Based on Governor's Proposed Budget Incl. 1.65% COLA [c]	2013-14 Net Change [c] minus [b]
Beginning Fund Balance	\$ 70.6	\$ 45.6	\$ 45.6	
Revenues:				
Revenue Limit	\$ 276.8	\$ 274.6	\$ 283.4	\$ 8.8
Federal	\$ 65.9	\$ 52.3	\$ 52.3	
State	\$ 108.6	\$ 108.4	\$ 109.4	\$ 1.0
Other Local	\$ 8.5	\$ 8.5	\$ 8.5	
Total Revenues	\$ 459.8	\$ 443.8	\$ 453.6	\$ 9.8
Expenditures	\$ (490.2)	\$ (484.3)	\$ (484.3)	
Other Financing Sources	\$ 5.4	\$ (6.6)	\$ (6.6)	
Net Increase (Decrease) in Fund Balance	\$ (25.0)	\$ (47.1)	\$ (37.3)	\$ 9.8
Ending Fund Balance	\$ 45.6	\$ (1.5)	\$ 8.3	\$ 9.8

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## Next Steps/Timeline

- Board meetings as scheduled
- Study Sessions - Suggest the 3rd Tuesday of each month:
  - February 19; March 19; April 16; May 21; June 18, 2013
- Statutory Dates – Certificated notices if necessary
  - March 15 and May 15
- 2012-13 Second Interim – March 12, 2013
- 2013-14 Adopted Budget – June 25, 2013

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