California School Boards Association

April 15, 2013

To: Members of the California State Legislature
From: Vernon Billy, CSBA Executive Director
Dennis Meyers, CSBA Assistant Executive Director
Re: Balancing Equity and Restoration in K-12 Funding Reform

The California School Boards Association (CSBA) is pleased to share the attached reports to help inform the work of the Legislature in reshaping California's school finance delivery system. As schools climb out of the Great Recession and the state looks ahead to modest growth in Proposition 98, CSBA urges the Legislature to take this opportunity to strengthen our public education system to provide a high quality education for all of our students. As part our "Governance First" legislative agenda, CSBA supports a move to a school finance system that is simple, more transparent, relies on local decision making and accountability, and provides supplemental funds for students who face greater challenges such as EL students and those from low-income homes. But just as important, we believe that a discussion of school finance reform has to include a plan that at a minimum fully restores past funding reductions to schools as it incorporates principles of equity, local decision-making and accountability.

Attached are two reports, the first discusses how the Local Control Funding Formula (LCFF) would look if the goal of the state was to reach the national average in per pupil funding. The second report focuses on the LCFF if the goal was to restore past cuts to all schools. Both proposals would take additional resources and/or time to implement. But both are doable if there is a will on the part of our state's elected leaders to commit to 21st Century funding needs of public school students.

Why should it be acceptable to project school funding growth over the next 5-7 years that gets schools back to where they were in 2007-08?

The attached papers provide CSBA's recommendations to balance equity with restoration while providing supplemental funding for student populations that face greater challenges in meeting our state's expectations for college and career readiness. Both papers were prepared under the direction of CSBA's Governmental Relations Department and were written by Rob Manwaring, a school finance expert and former Deputy Legislative Analyst with the Legislative Analyst's Office.

If you have questions regarding the attached materials or would like additional information, please do not hesitate to contact me at vbilly@csba.org or Dennis Meyers, CSBA Assistant Executive Director for Governmental Relations at dmeyers@csba.org or Andrea Ball, CSBA Legislative Advocate at aball@csba.org. Our telephone number is (916) 371-4691.

Thank you.

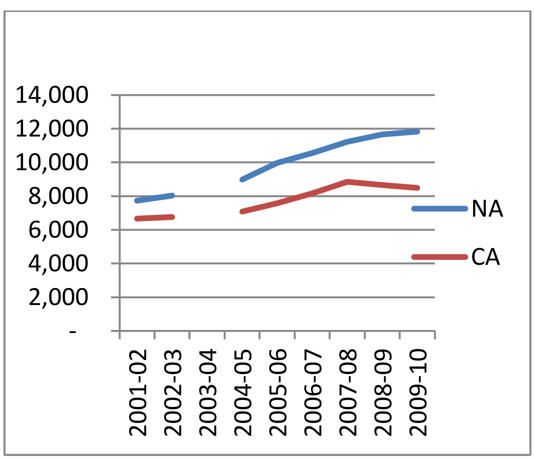
As the issue of the Governor's proposed Local Control Funding Formula (LCFF) continues to be debated, the California School Boards Association is advocating for a commitment from the Governor and the Legislature to restore per pupil funding for all school districts and county offices of education that was lost during the recession. CSBA's call for restoration includes restoring Revenue Limit deficits as well as the 20 percent cut to categorical programs. In setting a funding target for the formula's base grant, consideration should also be given to aiming for at least the national average in per pupil funding. This paper was commissioned by CSBA and written by education finance expert Rob Manwaring to outline how the LCFF would look with the national average in mind.

Linking Local Control Funding Formula (LCFF) to the National Average

According to Education Week's annual report *Quality Counts*, California trailed the national average (NA) in per-pupil spending by $3,342 per pupil ($11,824 vs. $8,482) in 2009-10. Figure 1 shows how the NA funding gap has grown since 2001-02. Much of the growth in the NA gap has happened in the 2008-09 and 2009-10 fiscal years. Over the two years, CA funding per pupil declined $370, while the NA funding increased $600. This leads to a $970 per pupil widening of the gap. The *Quality Counts* report relies on data from the National Center for Education Statistics (NCES) run by the Federal Department of Education, and adjusts expenditures for regional costs (a comparable wage index) also developed by NCES.[1]

Figure 1. California K-12 Funding Gap Grows Significantly

(Regional Cost Adjusted Per-Pupil Funding)



[1] The NCES regional cost adjustment relies on the research report – Taylor, Lori and William Fowler (2006) *A Comparable Approach to Geographic Cost Adjustment*, Education Finance Statistical Center, National Center for Education Finance. The comparable wage model compares the salaries of college graduates with similar education levels as teacher in different geographic regions. It uses these cost differences that school districts and states face in hiring college graduates to adjust the level of spending that a district or state makes.

While NCES provides quality data on per-pupil funding, the data tends to lag the other national source of comparable expenditure data, namely the National Education Association's annual *Rankings and Estimates* report. Historically, the NEA data and the NCES per-pupil expenditure data track each other closely. According to NEA's *Rankings and Estimates*, the national average expenditures per pupil has increased by 2.0% between 2009-10 and 2011-12, while California's spending declined 1.2 %. So, when NCES updates its per-pupil funding numbers in the coming years, California's funding gap will grow. We calculate an estimate of the 2011-12 funding gap building off of *Quality Counts* per-pupil amount for 2009-10 ($8,482 per pupil) and apply the NEA estimated growth rates for the last two years. Figure 2 shows that California's funding gap has likely grown by over $300 per pupil in the last two years. So for 2011-12, other states on average have a funding level that is $3,679 higher per pupil or 44 percent higher than California's funding. For California to close this gap, the state would have to invest an amount per pupil that is greater than this gap because CA faces higher labor costs than in other states, and the $3,679 per pupil gap is in regional cost adjusted dollars. In fact, CA is the 3rd most expensive state behind New York and New Jersey. NCES estimates CA's regional cost adjustment as 1.092 meaning that our educated labor costs are 9.2% more in CA than the national average. Thus, for CA to close the gap, would require that if the national average increased by $1, California would need to spend $1.09 to keep pace. CA regionally adjusted spending gap is $3,649 per pupil for the 2009-10 and $4,017 per pupil for the 2011-12 gap. Closing these two estimates of the NA Gap would require an additional $21.7 billion and $23.9 billion respectively.

Figure 2. Quality Counts Funding Gap and Cost of Closing Gap

	2009-10	2011-12 Estimate
National Average	$11,824	$12,061
California	$8,482	$8,382
Gap	$3,342	$3,679
CA Regional Adjustment	1.092	1.092
Additional CA Spending to Close Gap	$3,649	$4,017
Cost of closing Gap	$21.7 billion	$23.9 billion

Linking LCFF Targets to Current National Average Gap

The Administration has proposed setting the target for the Base funding rate for LCFF relative to the average undeficited revenue limit – an average of $6,816 per pupil. By definition, this Base target means that around half of school districts will not see their Base funding return to 2007-08 funding levels even at full implementation. In fact, many more districts will not reach their 2007-08 funding levels when categorical programs are considered.

Specifically, a portion of the current categorical programs can be considered as being consolidated into the Base funding rate while others will provide a starting funding level for the Supplemental/Concentration grants.

The LCFF will require districts to spend at least as much Supplemental funding in 2013-14 as they are currently spending. While the proposal does not clarify what programs would be considered part of this starting place for Supplemental funding, the amount statewide is in the range of $1 billion (just Economic Impact Aid) to $1.5 billion (EIA plus other flexed categorical programs that generally served low income, EL, or low performing students). That leaves around $3 billion in categorical aid (depending upon how the Supplemental is determined) that will effectively count against the Base funding targets.[2] When these funds are considered with revenue limits, the Base Targets will return far fewer than half of school district's to their 2007-08 Base. Even with a relatively low Base Target level, the Department of Finance (DOF) estimates that it would take up to seven years to transition to the new funding targets and an additional $15.5 billion plus COLAs on top of that. While the DOF proposal is certainly a step in the right direction in improving K-12 funding after several years of cuts, even if the additional LCFF investment of $15.5 billion was made today, the state would still trail the nation average spending level by $6.2 billion to $8.4 billion.

An alternative approach to setting the LCFF targets would be to align the targets to the national average funding level which would increase the amount of funding to transition to the new funding rates to either $21.7 billion or $23.9 billion depending upon which year's national average was used. This would require setting the LCFF Targets higher in order to raise the total investment at full implementation to align to the national average. This analysis will determine the LCFF funding rates that would need to be set using two different methodologies. The first methodology will base the National Average target on the current National Average funding level, effectively costing either $21.7 billion or $23.9 billion compared to the $15.5 billion cost of reaching the LCFF Targets set by the Administration. The second methodology, discussed in detail below, would link the LCFF Targets to a funding level that if met within a specified time period would lead to California actually spending at the national average. This analysis will make various assumptions about the growth rate in the national average, and will identify how much additional Proposition 98 resources would need to be invested over this time period in order to actually reach the national average.

Setting LCFF Funding Rates to the Current National Average Funding Levels

This analysis has identified two different estimates for the national average gap, one that is based on the *Quality Counts* estimate of 2009-10 ($21.7 billion gap), and one that uses the NEA estimates of state spending to estimate a 2011-12 funding gap ($23.9 billion gap). Since both of these national average gaps are more than the estimated additional spending proposed by the Governor, the LCFF Target rates would need to be increased to link to the current national average funding gap. Below this analysis will develop LCFF funding Targets that would spend either Option (1) $21.7 billion or Option (2) $23.9 billion more than current funding.

In addition, there are two different methods that could be used to increase the LCFF funding rates. The first Option (A) would adjust the Base, Supplemental, and Concentration rates proportionally. The second Option (B) would increase only the Base funding rate, leaving the dollar amounts of the Supplemental and Concentration grants at their currently proposed levels. (Neither option would change the grade K-3 add-on, CTE add-on nor funding for

[2] This total excludes categorical programs that are Supplemental in nature, K-3 CSR that transitions to the K-3 Add-on, TIIG and HTS transportation, and ROCP that transitions to the high school CTE Add-on.

Targeted Instructional Improvement Grant and Home-to-School Transportation grants). Option (A) would maintain the relative prioritization of Base funding and activities to support students with additional needs spending roughly 80 percent of the LCFF funding on the Base and20 percent on Supplemental/Concentration funding at full implementation. However, it may be that the dollar amount per unduplicated student of the Governor's proposed Supplemental and Concentration funding would be sufficient to provide the extra level of services that low income students and English learners need to be successful. In fact, many school finance experts believe that the higher the level of Base funding, the greater the level of service that is provided to all students, the less the need for supplemental funding. Basically, if more student supports are provide in the base for all students, then the fewer additional (supplemental) services are needed for low income students and ELs. Because there are different choices on the size of the gap (Option 1 and 2) and different choices on what rates to adjust (Options A and B), there are a total of four different estimates LCFF rate estimates.

Figure 3 displays the different average Base funding rates that would result from the four different options. The per-pupil funding rates would increase by somewhere in the range of $800 per pupil to around $1,400 more per pupil (an increase of 12-20 percent) compared to the Administration proposed LCFF rates. For example, if the 2011-12 National Average estimates were used and all of the additional funding were applied to raising the Base funding rates, then the average Base would be increased to $8,196 per pupil, roughly $1,400 higher per pupil than the proposed LCFF funding rates. The impacts would vary proportionately for the different grade ranges as illustrated below.

Figure 3. Options to Link LCFF Funding to Current National Average

Different Rate Options	Costs ($Billions)	Average Base Target
Governor's Proposal	$15.5	$6,818
Option 1A. 2009-10 National Average + Adjust All Targets	$21.7	$7,621
Option 1B. 2009-10 National Average + Adjust Base Target Only	$21.7	$7,829
Option 2A. Est. 2011-12 National Average + Adjust All Targets	$23.9	$7,913
Option 2B. Est. 2011-12 National Average + Adjust Base Target Only	$23.9	$8,196

Figure 4 illustrates the impact that these options would have on the grade-level Target rates and the average Supplemental/Concentration Target rates. Options 1A and 2A would maintain the same relationship between the Base rates and the Supplemental/Concentration rates. In contrast since Options 1B and 2B would maintain the same dollar amounts for the Supplemental/Concentration grants, but would invest the additional funding to reach the national average funding level in the Base, there would be a slight reduction in the Supplemental/Concentration weight relative to the Base. Specifically in Option 1B – 2009-10 national average and adjust only the Base rate – the Supplemental rate would be 30 percent of the Base rate, and for Option 2B it would 29 percent of the Base rate.

Figure 4. Higher LCFF Targets Under Various Options

Funding Rates	Governor's Proposal	Option 1A	Option 1B	Option 2A	Option 2B
Avg. Base rate	**$6,816**	**$7,621**	**$7,829**	**$7,913**	**$8,196**
Grade K-3	6,342	7,091	7,285	7,363	7,627
Grade 4-6	6,437	7,197	7,394	7,473	7,741
Grade 7-8	6,628	7,411	7,613	7,695	7,971
Grade 9-12	7,680	8,587	8,821	8,916	9,235
Supplemental	2,375	2,655	2,375	2,757	2,375
Concentration	2,357	2,635	2,357	2,736	2,357
K-3 CSR Add-on	712	712	712	712	712
HS CTE Add-on	215	215	215	215	215

Using the Governor's framework, all of these options would set higher Base targets than the Governor's proposal, and would require additional funding at full implementation. Reaching these higher targets would either require an investment over the next seven years beyond that projected for the Proposition 98 minimum guarantee, or a lengthening of the transition period to reach full implementation. If the longer transition period approach was taken, it could take an additional 3 or 4 years of Proposition 98 growth to reach the higher LCFF targets. This lengthening of the implementation period would also take the state beyond the expiration of the Proposition 30 tax revenues which raises the issue of what will happen to Proposition 98 funding levels, and the resources supporting the LCFF transition in the post Proposition 30 period. And, even though these higher funding targets are linked to the current national average, meeting these targets would only mean that California had raised its 2019-20 or beyond per pupil spending level to the current national average.

Recent reports from other states have signaled that legislatures across the country are likely to increase their education funding significantly in the next year or biennium as other states have recovered from the great recession faster than CA has recovered.

Unfortunately, the level of investment projected by DOF over the next seven years in the LCFF formula, may not be enough for California to even maintain the current funding gap that it has with the national average. Basically because the 2011-12 national average spending level is 44 percent higher than California's, it means that California's average annual growth rate in per pupil spending will need to be 44 percent higher than the growth rate in the national average, just to maintain the current dollar per pupil funding gap (this is illustrated below). The next section of this analysis looks at the aggregate funding increases proposed by LCFF and how those funding increases will change California's spending per pupil relative to the national average.

What Would it Take to Close the National Average Gap?

The projected investments in the LCFF model over the next seven years will increase California's per pupil funding significantly. But, will that investment be enough to close the gap to the national average? The answer is likely that it would help close the gap some, but not completely. This section incorporates the dynamic impact of growth in the national average over time and the COLA that will be provided for the LCFF Targets and funding. [3] The goal is to determine how much more the state would need to invest to meet the national average over a similar seven-year timeframe.

LCFF Will Increase Spending by over $3,900 Per Pupil

In 2012-13, the state spent $39.5 billion on the programs and revenue limits that will be consolidated into the LCFF model. Figure 5 shows the additional investments projected under LCFF. To meet the LCFF targets, the state will need to spend an additional $15.5 billion to move each district to their targets. In addition, over the seven years of implementation, the state will annually adjust the Targets for the Base, Supplemental, Concentration, K-3 Add-on and CTE Add-on for COLA. Using the LAO forecasted COLA rates from their *Fiscal Forecast*, this will cost the state an additional $7.5 billion over the seven-year period. That will lead to $23 billion invested above the current spending levels by 2019-20 when the $15.5 billion gap-to-Target estimate is combined with the COLA. This investment equates to just over an additional $3,900 per pupil (unadjusted dollars). This is slightly less than the amount required to meet the current estimate of the 2011-12 national average funding gap in Figure 2 of roughly $4,017 per pupil. But, the LCFF funding represents only around 80 percent of the total per pupil funding and excludes other state (largely special education), local, and federal funds. If those additional funding sources grow somewhat, then when combined with the LCFF investments, the state will reach the 2011-12 national average by 2019-20. But, if the national average continues to grow which it always has, then California will continue to remain below the national average even after LCFF is fully implemented.

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[3] This analysis ignores enrollment growth which is projected to be relatively flat over the period. The Department of Finance projects less than 0.5 percent enrollment increase between now and 2019-20. This analysis also ignores that raising CA's spending per pupil will lead to an increase in the national average making it more difficult to close the gap to the national average. Because CA serves 13 percent of the students in the county, its currently low spending is a significant drag on the national average. It also ignores the interaction of state funding and federal funding. Under federal law, many of the formulas for federal programs including Title I and grants linked to Title I provide higher funding depending upon the level of funding the state provides. Thus, if CA can increase its state funding relative to other states, it would also receive greater federal funding over time.

Figure 5. Growth in Funding for LCFF over Next Seven Years

Source	Amount in $Billions
Current LCFF Start	**39.5**
LCFF Augmentation	15.5
COLA on New Targets	7.7
Estimated LCFF Funding Increase	(23.2)
2019-20 LCFF Funding	**62.7**
	Amount per pupil
LCFF Increase (Unadjusted)	**$3,907**
Average Annual Increase	4.9%

Closing the National Average Gap Over Next 7 Years Would Require an Additional $17 Billion on Top of LCFF Projections

Whether the projected LCFF investment allow the state to make progress toward closing the gap to the national average, will largely depend upon the growth rate of the national average. If the national average grows quickly, then California may actually lose ground relative to the national average. And, if it grows more slowly, then California may be able to close the gap completely.

Figure 6 illustrates a projection of where the proposed LCFF investment would leave California relative to the national average. This projection makes several assumptions. First, it assumes that the national average continues to grow at the average pace that it has grown for the last decade – 4.5 percent annually. Second, it assumes that California funding grows with LCFF and COLA ($23 billion), and that CA's other funding sources (special ed, other local, and federal) grow at the same rate as the national average. Third, it assumes that California's funding grows at the same pace over the seven year period, because year-to-year projections are not available.[4]

[4] Because of the timing of different revenue impacts from the Proposition 30 revenues and the timing of paying off deferrals allowing for all of Proposition 98 growth to be dedicated to LCFF, the path of the transition will be lumpy. However, since the graph is largely to illustrate that CA will not be able to close the gap, the exact timing of the payments will not change the fact that CA will still be below the national average by thousands of dollars per pupil.

Figure 6. What it Would Take to Close the National Average Funding Gap

Under this scenario, California would make some progress toward the national average, but would not close the funding gap by 2019-20. In fact, California would still need to invest over an additional $2,900 per pupil to reach the national average spending level by 2019-20 even after the $23 billion LCFF investment that Proposition 98 would provide. It would require an additional $17 billion investment over the seven-year period to fully close the gap to the national average. Figure 6 also illustrates how the additional $17 billion would close the gap entirely over the seven year period.

Obviously, the 2019-20 funding gap is highly dependent on the growth rate in the national average If the national average grows slower than it has in the last decade, then the remaining gap will not be as large. Figure 7. Illustrates that even if the national average grows at half of its current average annual rate for the last decade, California will still not reach the national average with the projected funding increases over the next seven years. The estimate in Figure 7 for California assumes the LCFF funding under Proposition 98 plus the other funding sources (20 percent of total) growing at the same rate as the national average. Of course it is just as likely that the national average will grow faster in the next decade than it has grown in the last decade which would further widen the gap.

Figure 7. What Would it Take To Reach National Average by 2019-20?

National Average Growth Scenarios (Annual Increase)	National Average	CA Estimated	Remaining National Average Gap	Cost Beyond Prop 98 to Close Gap (in Billions)
2.3% (half of average)	14,467	14,124	344	2.2
3%	15,278	14,244	1,034	6.7
4%	16,506	14,420	2,086	13.5
4.5 % (Average last decade)	17,209	14,520	2,689	17.4

Closing the national average funding gap by 2019-20 would require K-12 funding to grow faster than the Proposition 98 projection through 2019-20. While changing provisions of the LCFF proposal will not change the level of Proposition 98 resources that are available, there are different approaches that could link the two issues together so that if there were enough additional Proposition 98 funds to meet the national average, those additional funds would support LCFF reaching specific LCFF funding Targets. There are three different approaches that could be used to link these two policies together. In theory all three approaches could move the state to a similar point, namely, full closure of the national average gap and the LCFF Target rates that would match that spending level.

- **Rely on Annual Budget Process.** Under this approach, the state would rely of the Legislature to annually invest the extra growth in Proposition 98 (by spending above the minimum) in LCFF – first using those funds to transition to the LCFF targets faster, and then increasing those Targets further as LCFF requires.
- **Link Annual Target Growth Rates to Growth in the National Average.** Above, four options were provided that linked the LCFF rates to the current national average gap (See page 4). As discussed, reaching those targets would not ensure that the state would reach the national average. If however, those higher LCFF target options were combined with the LCFF annual COLA being linked to the annual growth in the national average, then those LCFF rates would link the LCFF funding level to the national average. For example, if Option 2A (Close the 2011-12 estimated gap by adjusting all LCFF rates) were implemented, then the initial Base funding would be set at $7,913 per pupil. Then if that rate were adjusted by the annual growth in the national average, assume 4.5 percent for illustration, then the LCFF Base would adjust to around $11,250 per pupil by 2019-20. This LCFF rate could lead to a California total funding rate roughly equal to the national average. This rate compares to an estimated $7,800 per-pupil Base rate in 2019-20 under the Administration's LCFF projection.
- **Set Higher LCFF Targets Aligning Hitting Targets to Meeting the National Average.** Alternatively, the state could set an LCFF target in 2013-14 that when grown by COLA annually would lead to the same $11,250 per-pupil Base rate in 2019-20 as above. To hit this funding level, the state would need to set the initial average Base rate for 2013-14 at $9,840 per pupil.

Of course all of these scenarios assume that the state would provide an additional $17 billion in K-12 funding beyond the projected growth in Proposition 98 between now and 2019-20. If any of these methodologies were implemented and the additional funding not provided, then the state would remain in partial implementation beyond the 2019-20 fiscal year, and would not fully close the gap to the national average.

In conclusion, there are several methodologies to link the LCFF funding level to the national average. Regardless of the methodology used, the key to making progress toward the national average funding level is to have greater year-to-year growth than the current minimum guarantee will provide. If the national average grows at a similar rate to what it has grown over the last decade, then the current Proposition 98 projection would provide enough resources to at least close some of the gap with the national average over the next seven years. However, the forecasted revenues will leave around a $2,700 per-pupil gap remaining that would cost an additional $17 billion to fully close the gap.

Realigning LCFF Priorities to Balance Base Restoration vs. Supplemental Investment

In broadest terms, the LCFF proposal can be broken into two main policy efforts. First, the proposal attempts to rationalize a long irrational finance system and appropriately realigns the governance of the decision-making process. It does this through a process of transforming the current system to one that allocates funding mostly by a district's attendance and demographics. It then leaves the decisions about the use of these funds to the local level accompanied by accountability for those decisions. The second policy effort, realigns the distribution of resources between Base funding activities that support all students, and Supplemental/Concentration funding that targets low-income students and English learners that often need a higher level of service to meet the state's expectations.

While we support the general concept of recognizing the additional needs of low income students and ELs, those investments can't come at the expense of restoring the Base funding for the cuts that school districts have experienced the last five years. Specifically, the LCFF proposal does not restore Base funding to the 2007-08 level even by complete LCFF implementation, and the restorations that the state does make in the Base won't come fast enough to help district's balance their budgets and make the most critical of those restorations. We strongly encourage the Administration and the Legislature to reprioritize both the level of the Base restoration and the timing of those allocations compared to the allocations for new Supplemental activities.

The LCFF plans to provide over $15 billion into two areas over the next seven years – (1) Base restoration/equalization and (2) Supplemental/ Concentration increases. While we believe in the funding needs in these two areas, we question both the balance that the current proposal strikes between these two priorities and the timing of those allocations. We propose improvements to both the level of Base restorations and the timing of those restorations. Given that most of the reductions that schools have experienced over the last 5 years were Base reductions, it is unclear why the LCFF proposal would allocate so much of the near term Proposition 98 increases in the Supplemental/ Concentration grants at the expense of not restoring the Base. This brief suggests a reprioritization of those allocations within an LCFF framework that would balance equity with restoration.

Cuts have Largely Fallen on the Base

Since 2007-08, most of the funding reductions have fallen on the Base portion of district budgets. Figure 1 breaks down the cuts over the last five years.[1] Over this time period, $10.4 billion in cuts have been made to Base programs including the deficit factor on the revenue limit and the cuts mainly to Tier III categorical programs that under LCFF would be consolidated into the Base. In contrast, few of the recent cuts have fallen on the Supplemental/Concentration parts of the budget – around $113 million.[2] (Appendix 1 discusses the programs that may be considered Supplemental/Concentration in nature). Part of the reason that there were so few Supplemental reductions in the last several budgets, is that Economic Impact Aid, the largest of the programs ($944 million) was not reduced while other categorical programs were.

Figure 1. Breakdown of Cuts between Base and Supplemental
($ in Billions)

Reductions Since 2007-08	Base	Supplemental/ Concentration	Total
Deficit Factor	9.2	0	9.2
Categorical Reductions	1.2	0.1	1.4
Combined Reductions	10.4	0.1	10.5

How these base cuts have impacted districts varies across the state. Some of the types of Base cuts that districts have made include – reducing the number of school days, reducing teacher planning days, and increasing class sizes. In addition, districts have put off key investments a few years including expenses like maintenance projects, professional development training, instructional material purchases, and computer/equipment replacements. Finally some districts have had to rely on depleting their reserves through unsustainable deficit spending. While we recognize the need to invest in our low-income students and English learners, these investments can't come at the expense of restoring the type of Base reductions that districts across the state have made over the last five years. The need to restore the Base is especially true given that there was no fat to trim in the 2007-08 Base. Specifically, the 2007-08 Base funding level supported the second largest class sizes in the country and fewer educators (teachers, administrators, counselors, …) per pupil than almost every state.

[1] In addition to the cuts in the LCFF related programs that will be consolidated into LCFF, school districts have experienced several deferrals of revenue limits, categorical funds, and mandate reimbursements totaling $9.4 billion (assuming the state's restoration of deferrals proposed in the 2013-14 budget). Also there were some additional programmatic reductions for categorical programs not part of the LCFF proposal.

[2] The reductions to supplemental activities may have been somewhat greater than the $113 million in Tier III reduction the programs directly experienced. When these categorical funds were flexed, school district may have chosen to make additional reductions to the supplemental type services within that flexibility.

LCFF Provides in Supplemental/Concentration Grant Increases

In stark contrast to the balance in the reductions districts have experienced, LCFF invests most of its new funding in the Supplemental /Concentration Grants. Figure 2 shows the breakdown in the LCFF funding increases. Districts will receive COLA for both the Base and Supplemental/Concentration portion of the formula on top of these increases. Of the next $15.3 billion invested in the next seven years on top of COLA, roughly $9 billion (60 percent) will be spent on Supplemental/Concentration, while only $6.2 billion (40 percent) will be used to restore and equalize the Base.[3] When compared to current funding levels, the Base will experience a 17 percent increase over the seven years, while the Supplemental/Concentration funding will experience a 607 percent increase. We believe that these priorities are out of balance especially given the recent Base reductions.

Figure 2. A Breakdown of the LCFF Proposed Allocations between Base and Supplemental/ Concentration Grants

($ in Billions)

	Base	Supplemental/ Concentration	Total	Supplemental/ Concentration Share
Current Funding	36.7	1.5	38.2	4%
Proposed LCFF Targets	42.2	10.5	52.6	20%
LCFF Gap	5.5	9.0	14.4	
2013-14 COLA (Added to Gap)	0.7	0.2	0.9	
LCFF Investment	6.2	9.1	15.3	60%

Seven years from now after LCFF has been fully implemented, school districts on average would not have received enough funding to restore the Base reductions that have been made since 2007-08. Specifically only $5.5 billion of the $10.4 billion Base reductions will be restored under the proposal (the roughly $700 million 2013-14 Base COLA costs do not count as dollars restoring past cuts because these costs are covering the programmatic increase of costs in 2013-14). This leaves almost $5 billion or just shy of half of the Base reductions un-restored under the LCFF proposal. We believe that at a minimum, on average across the state by full implementation that at least $10 billion in Base increases need to be made.

LCFF Funding Increases Exceed Cuts, But Supplemental Dollars Can't Be Used to Plug Holes in the Base

What is confusing about the LCFF proposal is that the majority of districts will see funding increases under LCFF that will exceed the reductions that they have experienced over the last five years. If you

[3] These estimates may vary slightly with the simulations that DOF has made and provided publically, but they represent the general impact that the LCFF proposal would have.

compare the roughly $10.5 billion in cuts to the $15.3 billion in increases that LCFF will make over the next seven years, at first glance one might think that the cuts will be restored. But, that is not the case because Supplemental/Concentration dollars can't be used to fill Base funding holes. LCFF requires that the Supplemental/Concentration dollars "substantially benefit" the students that generate those funds. So, these dollars can't be used for Base type activities like restoring the school year to 180 days, reducing class sizes, eliminating deficit spending, and paying for delayed investments (instructional materials, maintenance, technology…) for all students. They also can pay for new costs that districts will face like Common Core implementation. So, many districts will be facing a paradox of having to continue to live with past Base cuts, shortened school years, and inadequate staffing, materials, facilities, technology…, while at the same time the district is required to create new programs for low income students and English learners. Maintaining a deficited Base program will not be in the best interest of students, especially the low income and English learner students the proposal desires to help.

Set Higher Base Targets Under LCFF

In order to rebalance the LCFF investment to restore a larger portion of the Base reductions, we propose increasing the LCFF Base funding target high enough to spend $10.4 billion on Base restoration/ equalization when fully implemented, compared to the $5.5 billion currently proposed ($5 billion more). Because the LCFF Base increases are provided in a combination of Base restoration and Base equalization, this full implementation increased level will not ensure that each and every district is fully restored, but will restore most districts to at least their 2007-08 Base funding level.

Figure 3 shows the LCFF rates that would be used if an additional $5 billion in the Base funding were added over the LCFF implementation period. Annual COLAs would still be provided on top of these additions similar to under the current LCFF proposal. This Restoration Alternative would increase the Base target rates by $835 per pupil on average, and would roughly equate to restoring the Base reductions that districts have experienced over the last five years on a statewide basis if not on a district by district basis.(Any districts not fully restored would be addressed below under our Alternative proposal).

Figure 3. Alternative LCFF Target Rates would Align with Restoration of Funding Cuts
($ per pupil)

Funding Rates	Governor's Proposal	Restoration Alternative
Avg. Base rate	**$6,816**	**$7,651**
Grade K-3	6,342	7,120
Grade 4-6	6,437	7,226
Grade 7-8	6,628	7,441
Grade 9-12	7,680	8,621
Supplemental	2,375	2,375
Concentration	2,357	2,357
K-3 CSR	712	712
HS CTE	215	215

This approach would maintain the same per-pupil amounts for the Supplemental and Concentration grants and the K-3 CSR and High School CTE Add-ons. Because the Base targets would increase under this Alternative and the Supplemental and Concentration targets remain the same, the Supplemental and Concentration weights would decrease slightly from .35 to .31.

Because this Alternative would allocate an additional $5 billion to Base grants at full implementation it would raise the cost of full implementation from $15.3 billion to just over $20 billion. Thus, it may take longer than seven years to reach full implementation unless either additional resources were added on top of Proposition 98 or the minimum guarantee grew faster than currently projected. Under this Alternative, the funding increases LCFF would make in Base restoration/equalization would be slightly higher than the increases it would make in Supplemental/Concentration grants - $11.2 billion for Base and $9.1 billion for Supplemental/Concentration.

LCFF Needs to Prioritize Growth and COLA over Other Components of LCFF Implementation

Growth. The specific Trailer Bill Language (TBL) is unclear about whether or how growth would be funded. For example, a School Services of California analysis suggests that growing districts would see their per-pupil funding fall any time that they experienced attendance growth. It is a high priority for CSBA and a matter of equity that the LCFF model adjust funding for changes in attendance. If a district has more students, it should not see its per-pupil funding fall as some have analyzed that LCFF would do. Specifically, the district should receive the same amount per pupil for its new students as it receives for its existing ones. While statewide student attendance is relatively flat, many districts continue to grow annually, making this an important issue for our organization.

COLA. Instead of funding an annual COLA, LCFF proposes to not fund the COLA, but instead add the cost of the COLA onto each district's LCFF Funding Gap by increasing the LCFF Targets. Raising the LCFF Targets will not necessarily mean that funding is provided. While increasing the LCFF targets would mean that the districts would eventually receive the benefit of the COLA (if LCFF is eventually fully implemented), it may be up to seven years for districts to receive the full COLA. The purpose of the COLA is to ensure that a district can maintain its current educational program each year. Thus, by not providing districts a full COLA each year, LCFF puts some districts in a position where they are losing ground even in years when the state is investing in the LCFF transition. We propose that the Administration prioritize providing a COLA over investing in closing the LCFF gaps each year. This will ensure that each district's program from the prior year could remain intact prior to funding an augmentation to either Base restoration or Supplemental/Concentration augmentations.

Because under LCFF the COLA rates are applied to the LCFF full implementation targets, the distribution of the COLA between Base and the Supplemental/Concentration component will reflect the new relative priorities of these two funding sources. Under the proposed Restoration Alternative that invests and additional $5 billion in the Base, the full implementation Base would be $47.1 billion and the Supplemental/Concentration at Full Implementation would remain at the $10.5 billion proposed by the Administration. Thus, for the annual COLA roughly 82 percent of the COLA would go toward maintaining the value of the Base and 18 percent toward increasing funding for the Supplemental/Concentration grants. In 2013-14, the COLA (1.65 percent) would cost roughly $950 million of which $778 million would be for the Base and $172 million for Supplemental/Concentration.

Because the COLA is based on the LCFF targets and the Supplemental/Concentration targets are over 600 percent of the current Supplemental/Concentration funding, even the Supplemental/ Concentration COLA will allow districts to expand their Supplemental programs. For example, the 1.65 percent COLA projected for 2013-14 would provide $172 million in funding for Supplemental/Concentration programs statewide. This equates to almost a 12 percent increase in Supplemental/Concentration compared to the current spending level of $1.5 billion on Supplemental/ Concentration funding.

Figure 4 estimates how the growth in Proposition 98 funding available for LCFF would be used under this approach of prioritizing growth and COLA over the gap closure of LCFF. Figure 4 illustrates that over 60 percent of the growth in LCFF funding in 2013-14 would be used to cover the costs of growth and COLA, leaving 40 percent available to close the LCFF Gap (Base and Supplemental/Concentration).

Figure 4. Allocation of LCFF Prop 98 Funds if Prioritizing Growth and COLA

($ in Millions)

	2013-14	2014-15
Proposition 98 growth available for LCFF	1,600	2,500
Growth	37	-
BASE COLA	778	887
Supplemental COLA	172	197
Available for Gap Closure	613	1,416

LCFF Should Prioritize Investments in Base Restoration over the Creation of New Supplemental Programs

Each year, after the state has fully funded attendance growth and the COLA, the remainder of the funding would be available to close the LCFF Funding Gap which under the Restoration Alternative are comprised of a combination of Base restoration/ equalization ($11.1 billion) and Supplemental/ Concentration investment ($9 billion). The state needs to find a balance between how quickly it restores Base funding and how much is invested in Supplemental/Concentration. Over the course of the full implementation all $20 billion would be funded.

Figure 5 shows different options for how the post Growth and COLA funds ($613 million in 2013-14 and $1.4 billion in 2014-15) would be divided between Base and Supplemental/Concentration under various scenarios. If for example, the state divided the LCFF Gap closure funds between Base and Supplemental/Concentration proportionally to their share of the LCFF targets (82 percent Base compared to 18 percent Supplemental/Concentration), then the state would invest around $503 million in restoration/equalization of the Base and $110 million in additional funding in the Supplemental / Concentration funding. Other alternatives would provide more or less Base funding relative to the Supplemental/Concentration funding.

Figure 5. Balancing LCFF Gap Closure Between Base and Supplemental/Concentration
($ in Millions)

	2013-14		2014-15	
Base/Supplemental Shares	Base	Supplemental	Base	Supplemental
90/10	$552	$61	$1,275	$142
82/18	503	110	1,161	255
80/20	490	123	1,133	283
70/30	429	184	991	425
60/40	368	245	850	567

Because these scenarios would all accelerate the restoration of the Base funding relative to the Supplemental/Concentration investment, it would mean that districts would reach their Base LCFF targets sooner than they would reach their Supplemental/Concentration targets. Thus, once district Bases had been generally fully restored, then all of the LCFF year-to-year growth would be invested in the Supplemental/Concentration grants.

Even with this proposed reprioritization of the LCFF investment – funding growth and COLA first and then accelerating the restoration of Base, school districts would still see healthy increases in Supplemental/Concentration funding. For example, under the 82/18 split between Base and Supplemental/Concentration plus the growth and COLA funding above, the Base would experience a 3.6 percent increase year to year, while the Supplemental/Concentration funding would receive a 19 percent increase. So, even with a reprioritization of LCFF funding toward providing greater Base funding during early implementation, the Supplemental/Concentration funding would still see significant funding increases. For 2014-15, the Base would grow $2,050 billion (5.4 percent) while the Supplemental/Concentration funding would grow $450 million (26 percent).

Guaranteeing Full Restoration of the Deficit Factor and Categorical Cuts

While the Alternative proposal outlined above would provide sufficient LCFF funding to restore the cuts since 2007-08 for almost all school districts, there would still be some small number of districts that would still not see their cuts from 2007-08 being restored over the full implementation of the LCFF Alternative proposal. CSBA believes that the state should ensure that every district can restore the programmatic cuts that it has had to make over the last five years. If a combination of LCFF funding, COLAs, and growth in local property taxes are not sufficient to restore all of the cuts that to a school district has experienced over the last five years, then the state should provide an "out of formula" add-on to restore the budgets for those school districts. We believe that this would be a small amount of additional funding, but it would ensure that all districts would be able to build back their 2007-08 program.

Specifically, the state would calculate and continue to track for each district a fully restored funding level that included the district's 2012-13 funding level plus that district's share of (1) a restored deficit factor, (2) annual growth and COLA on that revenue limit, and (3) restored 20 percent categorical reduction made through Control Section 12.42. It would then compare that calculated funding level to the level of funding that each district receives through a combination of the LCFF formula, COLA on the LCFF targets, and any growth from the 2012-13 level of excess property taxes. If any district was not on track to have their 2007-08 funding level restored by the time LCFF was fully implemented, then that district would receive an out of formula supplement. That district would continue to receive the supplement until the LCFF targets were raised through a combination of annual COLAs and additional increases to fully restore all of that district's funding reductions within the LCFF formula.

We recommend including local excess taxes in this calculation because the intent of our proposal is to see all district's be able to at least restore the funding reductions that they have experienced over the last several years. If a basic aid district is able to fund those reductions with their growth in local property taxes, then the policy objective of allowing for full program restoration is met. We believe that this out of formula supplement would apply to very few districts, and that those districts would mostly be smaller ones, so the fiscal impact of this component of the proposal would be minimal, but would ensure a core principle of CSBA's, namely that all school districts see their funding reductions fully restored over the implementation of LCFF.

Conclusion

CSBA concurs with the need to transition California's finance system to a more rational one that reflects the costs that school districts face in meeting the needs of all students. At the same time, school districts have faced significant funding reductions over the last five years. It is a core principle of finance reform, that any proposal ensure that all districts see their funding restored to at least the 2007-08 funding levels (adjusted for inflation).

While the LCFF proposal moves the state in the right direction, it does not ensure that all of the districts will have their funding reductions restored. The LCFF Alternative proposed in this brief will meet the goal of full restoration within an LCFF framework. The Alternative achieves this through a combination of (1) raising the LCFF Base Target rate, (2) accelerating the funding increases in the LCFF Base relative to increases in Supplemental/Concentration funding, and (3) providing assurances that all districts will see their recent funding reductions fully restored.

Appendix 1. Programs that Would Create a Starting Place for Supplemental Funding
($ in Millions)

Supplemental Sources	Maximum Amounts
Stand Alone Programs	
Current EIA	944
Charter School EIA equivalent Est.	85
Foster Youth	14
Tier III Flexed Programs	
Pupil Retention Block Grant	77
Community Based Tutoring	40
High School Exit Exam Supports	58
Supplemental Instruction - Remedial	200
Supplemental Instruction - Retained and Recommended for Retention	48
Supplemental Instruction - Low STAR and at Risk of Retention	17
Current Max Supplemental	**1,483**

LCFF does not specifically identify the existing programs that would effectively be transitioned into the LCFF Supplemental/Concentration grants. LCFF requires that districts spend at least as much on Supplemental / Concentration activities as they did in the 2012-13 fiscal year. This chart estimates the amount of funding statewide that would be the initial funding level for Supplemental/Concentration funding. Some of the funding for these programs has been flexed while others have not, so it is unclear where the best starting place for Supplemental/Concentration funding is. For this analysis, we assume that Supplemental/Concentration funding would start at this $1.5 billion level.

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