

The 2013-14 Budget:

Restructuring the K-12 Funding System

SIMPLE
TRANSPARENT
RATIONAL
+ STUDENT-BASED

NEW FUNDING FORMULA

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EXECUTIVE SUMMARY

Governor Proposes to Restructure State’s Approach to Allocating Education Funding. The Governor proposes to restructure the way the state allocates funding for K-12 education. Under the Governor’s plan, the state would replace the vast majority of existing revenue limit and categorical funding formulas with a new, streamlined set of funding formulas—one applying to school districts and charter schools and the other applying to county offices of education (COEs). The Governor refers to his collection of proposals as the “Local Control Funding Formula” (LCFF). The Governor’s budget provides \$1.6 billion in 2013-14 to begin implementing the new formulas.

School Districts and Charter Schools

New Formula Based on a Uniform Per-Pupil Base Rate and Four Supplemental Grants. Under the current system, districts receive notably different per-pupil funding rates based on historical factors and varying participation in categorical programs. In contrast, the Governor’s proposal would provide a uniform base per-pupil rate for each of four grade spans. These base rates would be augmented by four funding supplements for: (1) students needing additional services, defined as English learners (EL), students from lower income (LI) families, and foster youth; (2) districts with high concentrations of EL/LI students; (3) students in grades K-3; and (4) high school students. The Governor’s proposal establishes target base rates that, when combined with the proposed supplements, exceed the per-pupil funding levels most districts currently receive. As such, the administration estimates it would take several years to reach the target funding levels. As opposed to the specific programmatic activities required under the current system, the Governor’s proposal would require districts to develop local plans describing how they intend to educate their students.

Governor’s Proposal Has Many Strengths . . . We believe the Governor’s proposed LCFF would address many problems inherent in the state’s existing K-12 funding approach, and we recommend the Legislature adopt most components of the proposal. Unlike the current system, the proposed formula would be simple and transparent, fund similar students similarly, and link funding to the cost of educating students. In our assessment, the proposed rates for both base per-pupil funding and the EL/LI supplement are reasonable (though using alternative methodologies to develop somewhat different rates also would be reasonable). The proposed approach would increase districts’ ability to design programs that best meet the needs of their students, as well as refocus the state’s role on monitoring student performance and intervening when districts show signs of struggling.

. . . But Proposal Could Be Improved by Some Notable Modifications. We recommend the Legislature modify several components of the proposed formula. Specifically, we recommend making a few changes to the way the proposed EL/LI supplement and concentration grants would be calculated and strengthening spending requirements for these supplements to ensure that the additional funds translate into additional services for the target student groups. Additionally, we recommend against providing separate funding supplements for K-3 and high school students. Instead, we recommend adjusting the base rates to account for any notable grade-span cost differences. We also recommend adding two categorical programs to the new formula, maintaining

some spending requirements for facility maintenance, and changing the way the formula would operate for “basic aid” school districts.

COEs

Proposal Would Replace Multiple Funding Streams With Two-Part Funding Formula. Under the current system, COEs perform a range of activities and are funded by a variety of sources. The Governor would collapse most existing funding streams into a simplified, two-part formula for COEs to (1) provide regional services to districts and (2) educate students in COE-run alternative schools. While the amounts associated with these two responsibilities would be calculated through two separate formulas, the funds would be combined into one allocation that COEs could use for either purpose. Similar to his district proposals, the Governor also proposes to (1) eliminate most categorical program requirements for COEs and (2) establish a funding target for each COE and build toward those targets over a number of years. The Governor’s 2013-14 budget includes a \$28 million augmentation to begin this process. Because many COEs currently receive a substantial amount of categorical funds to provide regional services, the administration estimates that fewer than half of COEs currently receive less than their target levels.

Move Towards Simplifying and Streamlining Makes Sense, but Fundamental Questions to Resolve and Proposed Rates Too High. We think the Governor’s general framework of combining multiple funding streams and simplifying allocation formulas makes sense. Additionally, the Governor’s alternative education proposal addresses some existing inconsistencies in how the state funds students in alternative schools. We are concerned, however, with the lack of clarity and accountability regarding the role of COEs in the education system. We also are concerned that the Governor’s proposed funding rates for both regional services and alternative education exceed the associated costs. We recommend the Legislature identify the services expected of COEs, ensure accountability mechanisms are in place to encourage COEs to provide cost-effective services, and reduce the rates associated with each of the two COE formula components to better align funding levels with required services.

Conclusion

Recommend the Legislature Act Now to Make Critical Improvements to Funding System. Adopting the Governor’s proposed formula is not the only way to improve the existing funding system. A wide variety of restructuring approaches still would meet the guiding principles of simplicity, transparency, rationality, and flexibility in K-12 funding. Restructuring the funding system will be a complex undertaking, and it will not solve every K-12 challenge. Changing the funding approach, however, would address some fundamental problems. We believe that neither the complexities associated with implementing broad-based change nor the need to better develop other areas of the K-12 system should preclude the state from making significant, necessary, and immediate improvements to school funding.

INTRODUCTION

The Governor proposes to dramatically restructure the way the state allocates funding to school districts, charter schools, and COEs. Similar to his proposal from last year, the Governor's plan would replace existing revenue limit and categorical funding with a streamlined formula based on uniform per-pupil rates and supplemental funding for certain student groups. The proposal also would fund COEs to provide regional services to their local districts. The Governor refers to his collection of proposals as the LCFF. Perhaps most notably, the Governor's proposed approach

would contain very few spending or programmatic requirements.

This report is divided into two main sections—one focused on the changes that apply to school districts and charter schools and one focused on the changes that apply to COEs. In each of these sections, we begin by explaining the current funding system, then describe the Governor's proposals, next assess the strengths and weaknesses of his approach, and finish by offering recommendations for how the Legislature might improve his proposals.

SCHOOL DISTRICTS AND CHARTER SCHOOLS

As described below, the Governor proposes major changes to the way the state allocates funding to school districts and charter schools.

Background

Being familiar with both the basic components and widespread criticisms of the state's existing school funding system is an essential first step in understanding the rationale behind the Governor's proposed changes.

Current Funding System Based on Revenue Limits and Categorical Programs. The state's current approach to allocating funding to school districts consists primarily of revenue limits (general purpose funds) and categorical programs (grants that carry specific spending and programmatic requirements). In 2012-13, the state spent about \$47 billion in Proposition 98 funds for K-12 education, of which approximately three-quarters (roughly \$36 billion) was provided through revenue limits and about one-quarter (roughly \$11 billion) was allocated via individual categorical grants. (As described below, however,

almost half of this categorical funding has essentially become general purpose funding in recent years.) Revenue limits currently are continuously appropriated, while most categorical programs currently are appropriated through the annual budget act.

Spending Requirements Temporarily Suspended for Some Programs. To assist districts in dealing with tight budgets, in 2009 the state suspended categorical program requirements for roughly 40 of the state's 60 categorical programs. As a result, districts were granted discretion to use the \$4.7 billion associated with these programs for any purpose. (A small portion of these funds are allocated to COEs.) According to surveys our office has conducted in recent years, most districts have responded to this flexibility by redirecting the majority of funding away from most of the affected categorical programs to other local purposes. The current flexibility provisions are scheduled to expire at the end of 2014-15.

Categorical System Has Major Shortcomings. As our office has discussed numerous times in

prior years, the existing approach—particularly having so many categorical programs—has major shortcomings. First, little evidence exists that the vast majority of categorical programs are achieving their intended purposes. This is in part because programs are so rarely evaluated. Second, separate categorical programs often contain overlapping goals but distinct requirements. This magnifies the difficulty districts have in offering comprehensive services to students. It also blurs accountability and increases administrative burden. Third, having so many different categorical programs with somewhat different requirements creates a compliance-oriented system rather than a student-oriented system. These problems are further exacerbated by categorical programs that have antiquated funding formulas, which over time have become increasingly disconnected from local needs.

Broad Consensus That Current Funding System Is Deeply Flawed. For all these reasons, several research groups over the last decade have concluded that California’s K-12 finance system is overly complex, irrational, inefficient, and highly centralized. Although recent categorical flexibility provisions have temporarily decentralized some decision making, the provisions have done little to make the funding system more rational, linked to student needs, or efficient.

Governor’s Proposal

Generally, the Governor proposes to replace the numerous streams of funding the state currently sends to school districts with one simplified formula. (All proposals for districts also would apply to charter schools.) Below, we begin with a general overview of the Governor’s proposal and then describe the various components of the proposal in greater detail.

Overview

Replaces Existing System With New Funding Formula, Removes Most Spending Requirements.

The Governor’s new LCFF would replace revenue limits and most categorical programs with a more streamlined formula and remove most existing spending restrictions. As a result, the majority of currently required categorical activities—including purchasing instructional materials, conducting professional development, and providing supplemental instruction—instead would be left to districts’ discretion. Figure 1 displays the existing Proposition 98-funded categorical programs that would be eliminated and the associated funding that would become part of the new formula. (Federally funded grants would remain unaffected by the LCFF.) As shown, the proposal affects most of the programs and an associated \$3.8 billion currently subject to flexibility provisions, as well as an additional six programs and \$2.3 billion for which programmatic requirements currently still apply. (As described in more detail later, the Governor also would allow two programs totaling \$1.3 billion to remain as permanent add-ons to the new formula.)

Maintains a Few Categorical Programs. While the Governor’s proposed new funding formula would incorporate most existing state categorical programs, he would maintain a few Proposition 98 programs, totaling \$5.7 billion, with their existing allocation formulas and requirements. Figure 2 (see page 8) lists these programs and the rationale for excluding them from the new formula. As described in the figure, these programs tend to serve unique populations or involve specialized spending requirements. Not listed in the figure are two existing K-12 activities—adult education and apprenticeship programs—which under the Governor’s proposal would remain as discrete categorical programs but would be administered

by community colleges instead of school districts. (For more information on these proposals, please see our report, *The 2013-14 Budget: Proposition 98 Education Analysis*.)

New Formula Would Build Towards Uniform Per-Pupil Rates, Four Supplemental Grants.

Under the current system, districts receive notably different per-pupil funding rates based on historical factors and varying participation in categorical activities. In contrast, under full implementation of the new system proposed by the Governor, all districts and charter schools would receive the same per-pupil rates, adjusted by a uniform set of criteria. Figure 3 (see page 9) highlights the major characteristics of the Governor’s proposal, which we describe in detail below. As shown in the figure, the proposal would provide a base per-pupil rate for each of four grade-span levels. These base rates would be augmented by four funding supplements. The Governor’s proposal establishes target base

Figure 1
Categorical Programs Governor Would Consolidate Into Local Control Funding Formula^a

2012-13 (In Millions)	
Program	Amount
Currently Flexible	
Adult Education	\$634
Regional Occupational Centers and Programs	384
School and Library Improvement Block Grant	370
Summer School Programs	336
Instructional Materials Block Grant	333
Charter School Block Grant	282
Deferred Maintenance	251
Professional Development Block Grant	218
Grade 7-12 Counseling	167
Teacher Credentialing Block Grant	90
Arts and Music Block Grant	88
School Safety	80
High School Class Size Reduction	79
Pupil Retention Block Grant	77
California High School Exit Exam Tutoring	58
California School Age Families Education	46
Professional Development for Math and English	45
Gifted and Talented Education	44
Community Day School (extra hours)	42
Community-Based English Tutoring	40
Physical Education Block Grant	34
Alternative Credentialing	26
Staff Development	26
School Safety Competitive Grant	14
Educational Technology	14
Certificated Staff Mentoring	9
Specialized Secondary Program Grants	5
Principal Training	4
Oral Health Assessments	4
Other ^b	5
Subtotal	(\$3,804)
Newly Consolidated	
K-3 Class Size Reduction	\$1,326
Economic Impact Aid	944
Partnership Academies	21
Foster Youth Programs	15
Community Day Schools (for mandatorily expelled)	7
Agricultural Vocational Education	4
Subtotal	(\$2,318)
Total	\$6,122
Maintained as Permanent Add-Ons to Formula:	
Targeted Instructional Improvement Block Grant ^c	\$855
Home-to-School Transportation ^c	491

^a For some programs, county offices of education receive a share of the funding amounts displayed.
^b Includes five programs.
^c Associated program requirements would be eliminated, but funding allocations locked in at 2012-13 levels.

rates that, when combined with the proposed supplements, exceed the per-pupil funding levels the vast majority of districts currently receive. As such, the administration estimates it would take several years to reach the target funding levels. The Governor’s 2013-14 budget includes \$1.6 billion to begin building towards the target rates. Initial implementation of the new formula—and removal of categorical spending requirements—would begin in 2013-14. Moreover, all LCFF funds would be continuously appropriated beginning in 2013-14.

Base and Four Supplemental Grants

Sets Grade-Specific Target Base Grants.

Figure 3 displays the proposed per-pupil target base funding rates for each of the four grade spans. The proposed variation across the grade spans is based on the proportional differences in existing charter school base rates. The distinctions are intended to reflect the differential costs of providing education across the various grade levels. The target rates reflect current statewide average undeficitated base rates. That is, the targets reflect what average

revenue limit rates would be in 2012-13 if the state restored all reductions from recent years (roughly \$630 per pupil) and increased rates for cost-of-living adjustments (COLAs) that school districts did not receive between 2008-09 and 2012-13 (roughly \$940 per pupil). The Governor also proposes to annually adjust these rates by the statutory COLA rate, beginning in 2013-14. (The current estimated COLA rate for 2013-14 is 1.65 percent.) Base rate funds would be allocated based on average daily attendance (ADA) in each grade level.

Provides Four Supplemental Grants. In addition to the base funding rate districts would receive for each student they serve, the LCFF would provide supplemental funds based on four specific criteria. Specifically, districts would get additional funding for certain student groups, high concentrations of these groups, K-3 students, and high school students. We describe each of these four funding supplements in detail below.

Provides Supplemental Funding for Certain Student Groups. Under the current system,

Figure 2
Governor Would Exclude a Few Categorical Programs From New Formula

2013-14 (In Millions)

Program	Reason for Exclusion	Amount ^a
Special Education	Federal law requires state to track and report specific expenditure level. Also, majority of funding is allocated to regional entities rather than individual LEAs.	\$3,740 ^b
After School Education and Safety	Voter-approved initiative precludes major changes to funding allocation or activities (Proposition 49, 2002).	547
State Preschool	Funding supports unique population and set of activities. Not part of core K-12 mission.	481
Quality Education Investment Act	Scheduled to sunset in 2014-15.	313
Child Nutrition	Federal law requires state to track and report specific expenditure level.	157
Mandates Block Grant	Linked to constitutional requirements to fund mandates.	267
Assessments	Necessary to meet state and federal accountability requirements.	75
American Indian Education Centers and Early Childhood Education Program	Funding supports unique population and set of activities. Not part of core K-12 mission.	5
Total		\$5,685

^a Some county offices of education receive a small share of these funds.

^b Includes local property tax revenue.

LEAs = local educational agencies.

districts receive funding through the Economic Impact Aid (EIA) program to provide supplemental services for students who are EL and from LI families. In lieu of EIA, the proposed LCFF would provide districts with an additional 35 percent of their base grant for these same student groups. For example, an EL or LI student in grades K-3 would generate an additional \$2,220 for the district (35 percent of \$6,342, the K-3 target base rate). The Governor would provide these supplements for

students who (1) are EL, (2) receive free or reduced price meals (FRPM), or (3) are in foster care. The formula would count each student only once for the purposes of generating the supplement. (Because all foster youth are eligible for FRPM, throughout this report we typically include them when referencing the LI student group.) As shown in Figure 4 (see next page), the Governor’s proposed EL/LI supplement differs from the existing EIA program in several notable ways.

Figure 3

Overview of Governor’s Local Control Funding Formula for School Districts^a

Formula Component	Proposal
Target amount for base grant (per ADA)	<ul style="list-style-type: none"> • K-3: \$6,342 • 4-6: \$6,437 • 7-8: \$6,628 • 9-12: \$7,680
Supplemental funding for specific student groups (per EL, LI, or foster youth)	<ul style="list-style-type: none"> • 35 percent of base grant. • Provides EL students with supplemental funding for maximum of five years (unless students also are LI).
Supplemental concentration funding	<ul style="list-style-type: none"> • Each EL/LI student above 50 percent of enrollment generates an additional 35 percent of base grant.
Supplemental funding for K-3 and high school students (per ADA)	<ul style="list-style-type: none"> • K-3: 11.2 percent of base grant. • High school: 2.8 percent of base grant.
Higher level of funding for necessarily small schools	<ul style="list-style-type: none"> • Provides minimum grant (rather than ADA-based funding) for very small schools located in geographically isolated areas.
“Add-ons” to new formula	<ul style="list-style-type: none"> • Locks in existing Targeted Instructional Improvement Block Grant and Home-to-School Transportation district-level allocations and provides as permanent add-ons to the new formula.
Spending requirements	<ul style="list-style-type: none"> • Removes all categorical spending requirements for programs included in formula and two add-ons, effective 2013-14. • Requires that EL/LI and concentration supplemental funds be spent for a purpose that benefits EL/LI students. • When fully implemented, only provides K-3 supplement if district’s K-3 class sizes do not exceed 24 students, unless collectively bargained to another level. • Requires districts to develop, make publicly available, and submit to the local COE an annual plan for how they will spend funding and improve student achievement.
Transition plan	<ul style="list-style-type: none"> • Uses portion of annual growth in Proposition 98 funding to gradually increase each district’s funding rate up to the target level. Districts that currently have lower rates would get larger per-pupil funding increases each year. • Estimates full implementation by 2019-20.

^a Also applies to charter schools.

ADA = average daily attendance; EL = English learner; LI = lower income; and COE = county office of education.

Calculates EL/LI Student Supplement Based on Districtwide Averages, Not Grade-Specific Student Counts. To calculate each district's EL/LI student supplement, the formula assumes the districtwide proportion of EL/LI students also applies in each grade span level. For example, if 60 percent of the students enrolled in a unified district were EL/LI, the formula would calculate a

supplement for 60 percent of students in *each* grade span level—even if the actual proportions of EL/LI students differ across the grade spans.

Provides Supplemental Funding to Districts With Higher Concentrations of EL/LI Students. The Governor's proposal provides an additional funding supplement to districts whose EL/LI student populations exceed 50 percent

Figure 4

Comparing Proposed and Existing Methods of Funding EL and LI Students

- ✓ **Changes Measure of LI.** For the purposes of calculating the EL/LI funding supplement, the Governor's proposal would count students as LI if they receive a free or reduced price meal. The current Economic Impact Aid (EIA) formula instead uses federal Title I student counts as the measure for funding students from LI families.
- ✓ **Includes Funding for Foster Youth.** Under the Governor's proposal, supplemental funding for foster youth would be funded through the EL/LI supplement. Currently, special services for foster youth are funded through a separate categorical grant, not through EIA.
- ✓ **Individual Students Generate Only One Supplement.** The Governor's proposal would count each student who meets more than one of the EL/LI characteristics only once for the purposes of calculating supplemental funding. In contrast, the EIA formula currently provides double funding for EL students who also are from LI families.
- ✓ **Provides Notably More Supplemental Funding.** The proposed 35 percent supplement would generate notably more funding for most districts than the supplemental funds provided through existing categorical programs. Currently, EIA provides districts with an average of \$350 per EL or LI student, or an average of \$700 for students who meet both criteria. Additional existing categorical programs intended to serve these students provide an average of \$75 per EL/LI student. The new formula rates would range from \$2,220 to \$2,688 per EL/LI student, depending upon the grade level.
- ✓ **Links Supplement to Level of Funding for General Education.** The Governor's proposed approach explicitly would link the amount the state provides in supplemental funding to the amount provided for general education services, such that when the base amount increases, so would the supplement. Currently, the amount provided for EIA is not directly connected to how much is provided for other education services.
- ✓ **Institutes Time Limit for EL Funding.** The Governor's proposal would cap the amount of time an EL student could generate supplemental funds at five years (though districts could decide to continue spending more on the student and the student would continue to generate more funding if also LI). Currently, EL students can generate EIA funding until they are reclassified as being fluent in English, even if this takes 13 years.
- ✓ **Provides More Flexibility Over How Supplemental Funds Could Be Spent.** The Governor's proposal provides districts with greater discretion over how to use the EL/LI funds compared to current requirements for EIA funds. Districts would be required to use the supplemental funds to meet the needs of their EL/LI student groups, but they would have broad flexibility in doing so. Current law is more stringent, in that the state requires and monitors that districts use EIA funds to provide supplemental services for the targeted student groups beyond what other students receive.

EL = English learner and LI = lower income.

of their enrollment. Specifically, districts would receive an *additional* 35 percent of their grade span base grant for each student *above* the 50 percent threshold. (For the purposes of calculating this supplement, a charter school’s EL/LI concentration could not exceed that of the closest school district.) Figure 5 illustrates how concentration funding would work. As shown, all EL/LI students in the illustrative district would generate a \$2,220 supplement (35 percent of the base grant), but those comprising more than half of the district’s enrollment would generate an additional \$2,220. (As with the EL/LI student supplement, the concentration supplement also would be calculated assuming the *districtwide* proportion of EL/LI students is applied to each grade span.) The existing EIA formula also provides supplemental funds for districts where more than half of the student population are EL/LI; however, students over the 50 percent

threshold only generate an additional half EIA supplement, rather than double the supplement.

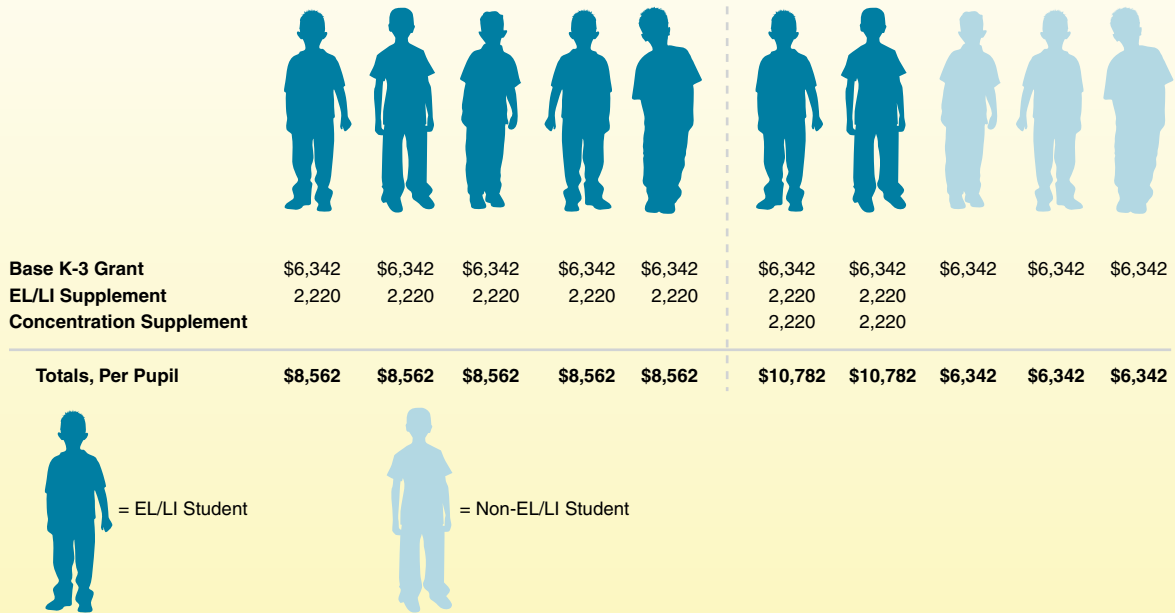
Requires That Districts Use EL/LI and Concentration Supplemental Funds to Benefit EL/LI Students. The Governor would require that districts use the supplemental EL/LI and concentration funds for purposes that “substantially benefit” the target student groups. These spending parameters are somewhat broader than current EIA constraints, which explicitly require that EIA funds be used to provide *supplemental* services beyond what other students receive. In the initial implementation years of the LCFF, interim spending requirements would apply. Specifically, in 2013-14 and until target funding levels have been achieved, districts would have to demonstrate they spent at least as much on services for EL/LI students as they did in 2012-13.

Provides Supplemental Funding for K-3 Students. Currently, the state funds a categorical

Figure 5

How the Proposed Concentration Funding Supplement Would Work

Illustration Based on an Elementary District of Ten Students



EL = English learner and LI = lower income.

program designed to provide additional funding to districts if they offer smaller class sizes in grades K-3. The proposed LCFF would continue this practice. Specifically, the formula would provide an additional 11.2 percent of the K-3 base grant for students in these grades (\$710 per ADA based on the target K-3 rate). The Governor intends that districts use these funds to maintain classes of 24 or fewer students in these grades. Once all districts have reached their LCFF funding targets, a district only would receive these funds if it maintains K-3 class sizes of 24 or less—unless the district and local teachers’ union agreed through collective bargaining to larger class sizes. (In the years before the formula is fully implemented, districts would have to “make progress” toward K-3 class sizes of 24, unless collectively bargained otherwise.)

Provides Supplemental Funding for High School Students. The Governor also proposes to provide districts with supplemental funding for high school students—in *addition* to the higher 9-12 per-pupil base rate. This supplement is intended to replace the categorical program funding high schools currently receive for career technical education (CTE) services. (Regional Occupational Centers and Programs, or ROCPs, is the largest of the existing CTE programs proposed for consolidation under the Governor’s approach.) Specifically, the supplement would provide districts with an additional 2.8 percent of the high school base grant (or about \$215 per ADA based on the target 9-12 rate). The proposal intends this funding be used to provide CTE, but districts would have discretion to spend the funds for any purpose.

Additional Funding Provisions

Maintains Two Large Existing Grants as Add-Ons to New Formula. The Governor proposes to maintain existing funding allocations for two of the largest categorical programs—Targeted

Instructional Improvement Block Grant (TIIG) (\$855 million) and Home-to-School (HTS) Transportation (\$491 million)—separate from the new LCFF. Unlike the other categorical programs the Governor explicitly excludes from the new formula, however, spending requirements for these two programs would be permanently repealed. Additionally, existing district allocations would be permanently “locked in,” regardless of subsequent changes in student population.

Modifies Basic Aid Calculation. The Governor proposes to change how local property tax (LPT) revenue factors into K-12 funding allocations, which could change whether districts fall into basic aid status. (See the nearby box to learn about basic aid districts and how they are treated under current law.) Currently, a district’s LPT allotment serves as an offsetting revenue only for determining how much state aid it will receive for revenue limits, not for categorical aid. The Governor proposes to count LPT revenues as an offsetting fund source for the *whole* LCFF allocation—base grant *and* supplements. The proposal, however, has one notable exemption. All districts (including basic aid districts) would be given the same level of per-pupil state categorical aid they received in 2012-13 into perpetuity. Thus, in the future a basic aid district with LPT revenue that exceeded its total LCFF grant would maintain this additional LPT revenue and *also* receive its 2012-13 per-pupil state allocation.

Continues Alternative Funding Approach for Necessarily Small Schools (NSS), but Tightens Eligibility Criteria. Under current law, schools that are located specified distances from a comparable school in the same district and whose ADA falls below certain thresholds are defined as NSS. Because of their small size, an ADA-based funding formula would not generate sufficient revenue for NSS to operate. As such, NSS currently receive a general purpose block grant instead of—and in an amount exceeding—per-pupil revenue limits.

The Governor proposes to maintain this practice, providing NSS with a block grant in lieu of an ADA-based LCFF grant. The Governor's proposal changes the definition for NSS, however, such that *only* geographically isolated schools would be eligible for the additional funds. This would eliminate an existing statutory clause that allows a school to claim NSS status (and additional funding) even if it is located near a similar public school, provided it is the only school in the *district*. Many schools currently receive NSS funding by virtue of being a school district consisting of a single school, not because they are geographically isolated.

Permanently Repeals Facility Maintenance Spending Requirements. Spending requirements related to facility maintenance are among the many existing activities slotted for elimination under the Governor's proposed approach. Prior to 2009, school districts receiving state general obligation bond funding for facilities were required to deposit 3 percent of their General Fund expenditures in a routine maintenance account. In addition, districts received one-to-one matching funds for deferred maintenance through a discrete categorical

program. Under the temporary categorical flexibility provisions adopted in 2009, the routine maintenance requirement decreased from 3 percent to 1 percent. These flexibility provisions also allowed school districts to use deferred maintenance categorical funds for any purpose and suspended the local match requirement. The Governor's proposal would permanently remove all state spending requirements as well as dedicated funding for both routine maintenance and deferred maintenance. How much LCFF funding to dedicate for facility needs would be left to individual districts' discretion.

Reestablishes Minimum School Year of 180 Days in 2015-16. In addition to suspending facility maintenance requirements, in recent years the state temporarily allowed districts to reduce their school year by up to five instructional days without incurring fiscal penalties—dropping the requirement from 180 to 175 days. These provisions currently are scheduled to expire in 2015-16. The Governor's proposal would maintain this plan and reestablish the 180 day requirement after two more years.

"Basic Aid" School Districts

In most school districts, revenue limit funding is supported by a combination of both local property tax (LPT) revenue and state aid. For some districts, however, the amount of LPT revenue received is high enough to exceed their calculated revenue limit entitlements. These districts are referred to as basic aid or "excess tax" districts. (The term basic aid comes from the requirement that all students receive a minimum level of state aid, defined in the State Constitution as \$120 per pupil, regardless of how much LPT revenue their district receives.) Generally, basic aid districts are found in communities that have (1) historically directed a higher proportion of property taxes to school districts, (2) relatively higher property values, and/or (3) comparatively fewer school-age children. In 2011-12, 126 of the state's 961 school districts were basic aid. These districts retained the LPT revenue in excess of their revenue limits and could use it for any purpose. The amount of excess tax revenue each basic aid district received in 2011-12 varied substantially, but was typically about \$3,000 per pupil. Under current law, basic aid districts do not receive any state aid for their revenue limits, but they do receive state categorical aid similar to other school districts.

Accountability

Replaces Most State Spending Restrictions With Annual District Plans. As opposed to specific programmatic requirements, the Governor’s proposal would require districts to document how they plan to educate their students. Specifically, concurrent with developing and adopting their annual budgets, districts would annually develop and adopt a “Local Control and Accountability Plan.” Figure 6 displays the required components of this plan. The Governor would require the State Board of Education to adopt a specific template for these district plans that also incorporates existing federal plan requirements. District accountability plans would be approved by local school boards, made publicly available for community members, and submitted to COEs for review.

Requires That COE Budget Approval Process Incorporate Review of District Accountability Plans. The COEs would be required to review district plans in tandem with their annual review and approval of district budgets. While the COE would not have the power to approve or disapprove a district’s accountability plan, approval of the district’s budget now would be additionally contingent on the COE confirming that (1) the plan contains the required components listed in Figure 6 and (2) the budget contains sufficient expenditures to implement the strategies articulated in the plan.

Transition

Most Districts Currently Funded Below LCFF target Levels. The administration estimates the cost of fully implementing the new system to

Figure 6

Required Components of Proposed Local Control and Accountability Plans

Goals and Strategies for:

- ✓ Implementing the Common Core State Standards.
- ✓ Improving student achievement, graduation rates, and school performance.
- ✓ Providing services for EL students, LI students, and children in foster care.
- ✓ Increasing student participation in college preparation, advanced placement, and CTE courses.
- ✓ Employing qualified teachers, providing sufficient instructional materials, and maintaining facilities.
- ✓ Providing opportunities for parent involvement.

Analysis of:

- ✓ Student achievement.
- ✓ Progress made in implementing goals since the prior year.

Cost Projections for:

- ✓ Implementing the plan.
- ✓ Meeting the needs of EL, LI, and foster students (projected costs must equal amount of supplemental funds received for those groups).

EL = English learner; LI = lower income; and CTE = career technical education.

be roughly \$15.5 billion, plus additional funding for annual COLAs moving forward. As the state does not yet have sufficient available funds to meet this need, the proposal would gradually increase districts' funding until they reached their target levels. Each district's "current base" would be calculated according to the amount it received in 2012-13 from revenue limits and the categorical programs included in the LCFF. Based on the administration's estimates, this calculation yields an amount lower than LCFF target levels for about 90 percent of districts. Most districts, therefore, would receive per-pupil funding increases in 2013-14 and future years. In contrast, districts with current funding bases that meet or exceed their new LCFF targets (plus COLA) would not receive additional funds in 2013-14, but they would be held harmless against per-pupil funding losses.

Phases-In New Formula as New Funding Becomes Available. The proposed 2013-14 budget provides \$1.6 billion—or about 10 percent of the total implementation cost—to begin the process of implementing the new formula. Consequently, in 2013-14 most districts would receive funding increases such that they move about 10 percent closer to their new funding targets. Districts whose existing funding levels are close to their target levels would receive less new funding per pupil than those that currently are farther away from their targets, but the same proportional share of each district's individual funding "gap" would be reduced. The Governor plans that over the next several years, roughly half of the annual growth in K-12 Proposition 98 funds would be allocated to implement the new funding system (with the other half used to pay down deferrals). Under this approach (and based on the administration's revenue estimates), the Governor estimates the new funding formula could be fully implemented—with each district funded at the COLA-adjusted target levels plus supplemental grants—by 2019-20.

LAO Assessment

We believe the Governor's proposed LCFF represents a positive step in addressing the many problems inherent in the state's existing K-12 funding approach. As such, we believe many components of the proposal merit serious legislative consideration. We are concerned, however, that some elements of the Governor's approach either miss opportunities to address existing issues or could create new problems. Below, we discuss our assessment of the strengths and weaknesses of the Governor's proposed funding formula for school districts and charter schools. Figure 7 (see next page) summarizes our assessment.

Governor's Proposal Has Many Strengths

Is Simple and Transparent. Currently, the state's categorical programs, as well as the broader education funding system, are based on overly complex and complicated formulas. Very few policy makers, taxpayers, school board members, or parents understand or can explain why a particular district receives a particular level of funding. In contrast, the Governor's proposed LCFF would distribute the vast majority of K-12 funds at uniform per-pupil rates with a few easily understandable, consistently applied adjustment factors. The transparency of such a simple system could in turn help engender greater public understanding, involvement, and confidence in local school budgets and decisions.

Funds Similar Students Similarly. Because today's K-12 funding system largely is based on outdated data and historical formulas, funding across districts varies in illogical ways. For example, similar students attending similar schools may be funded at different rates simply because they attend (1) a charter school rather than a district school, (2) a single-school district rather than a multi-school district, or (3) a district that applied to participate

in a particular categorical program decades earlier. Under the Governor’s proposal, funding rates would be based on current data and consistent criteria. This approach would address longstanding and arbitrary funding distinctions across districts (including single-school districts currently claiming NSS funding located close to other districts) and between districts and charter schools. Subsequent funding differences would be due to differences

in student populations, such that similar students attending similar schools would receive similar levels of funding.

Sets Reasonable Target Base Rates. The Governor’s approach to developing target base rates generally is reasonable. The proposed rates would restore reductions made over recent years, including foregone COLAs, and subsequently would increase funding levels for the vast majority of districts. The

Figure 7

Strengths and Weaknesses of Governor’s Approach

Strengths

- ✓ Is simple and transparent.
- ✓ Funds similar students similarly.
- ✓ Sets reasonable target base rates.
- ✓ Links funding to students’ needs.
- ✓ Sets reasonable supplemental EL/LI rate.
- ✓ Sets reasonable expectations for EL students.
- ✓ Provides more flexibility in addressing local priorities.
- ✓ Refocuses state and local responsibilities.
- ✓ Increases funding for vast majority of districts while progressing towards uniform target rates.

Weaknesses

- ✓ Perpetuates irrational funding differences by preserving two add-on programs.
- ✓ Does not ensure supplemental funding translates to supplemental services for EL/LI students.
- ✓ Does not target concentration funding to those districts with highest concentrations of EL/LI students.
- ✓ Supplement calculation could more accurately reflect student need.
- ✓ Adds unnecessary complexity by including separate K-3 and high school supplement.
- ✓ Maintains historical advantages for basic aid districts.
- ✓ Does not adequately protect investments in facilities.

EL = English learner and LI = lower income.

Legislature could use other methods to set the target base rates, however, which also would be reasonable. (See nearby box for a description of one alternative approach.) Regardless of the specific approach, we believe the policy of setting target rates that exceed existing levels but are attainable within a few years is reasonable.

Links Funding to Students' Needs. While the administration's *specific* grade span differential rates and 35 percent supplemental funding rate for EL/LI students might not exactly reflect associated costs, we believe the underlying policy of providing additional funds based on student needs makes sense. Providing increasing levels of funding for different grade spans recognizes the higher costs of providing an education to older students.

Specifically, instructional minute requirements and facility and equipment needs tend to increase as students progress through the grades. (High school costs are particularly high because they must offer college and career readiness training, which tends to require more specialized classes, facilities, and materials.) Similarly, providing supplemental funds for EL and LI students recognizes that to be successful, these students frequently require services above and beyond the education program the district provides to all students. (These supplementary support services often include tutoring, counseling, health services, smaller class sizes, and specialized educational materials.)

Sets Reasonable Supplemental EL/LI Rate. In an attempt to assess the appropriateness of

An Alternative Approach to Establishing Local Control Funding Formula Target Base Rates

The Governor proposes to set target base funding rates based on the statewide average undeficitated revenue limit rate. This generates a statewide average target rate of about \$6,800, which the Governor then converts into four unique grade span rates. An alternative approach would be to set the target rate based on the amount the state currently provides for general education services plus funding to address base reductions made in recent years. The average rate derived by this alternative approach totals about \$6,200, or approximately \$600 lower than the Governor's proposed rate. Under this approach the state would develop target rates by adding:

- Existing average revenue limit levels (\$5,250).
- An amount equal to the average *base* revenue limit reductions made in recent years (\$630).
- Average per-pupil categorical funding that districts currently receive to serve the general student population (\$320). This estimate includes average funding rates for programs intended to benefit all students, such as the Professional Development Block Grant, the Instructional Materials Block Grant, and the Arts and Music Block Grant.

We suggest this approach as an option because it approximates what the state is providing in general purpose funding today plus funding to address recent base reductions in general purpose funding. We exclude from these estimates the funding associated with existing programs intended to serve specific student groups, given that the Governor's proposed supplements would be designed to take the place of most of those programs. This approach also excludes funding associated with foregone cost-of-living adjustments (COLAs), as no other state program is receiving foregone COLAs.

the Governor’s proposed EL/LI supplement, we conducted a review of “weights” used in other states and suggested by relevant academic literature. Our research found that the Governor’s proposed 35 percent supplement is somewhat high but falls within the range of practices used and mentioned elsewhere. (Please see the nearby box for a more detailed discussion of our findings.) The lack of agreement across states and the literature, however, indicates there is no “perfect” or “correct” amount of funding for EL/LI students. These findings suggest the Legislature reasonably could adopt the Governor’s proposed rate *or* opt for a somewhat different rate and still meet the important policy objectives addressed by his proposal.

Sets Reasonable Expectations for EL Students.

Having a working knowledge of English is crucial if students are to be able to access the school curriculum. By establishing a five-year time limit

for EL students to generate supplemental funds, the Governor appropriately focuses attention on providing intensive initial services. (Because of the spending discretion built into the Governor’s proposal, the new timeline would not preclude districts from continuing to provide language services for those students who continue to need them after five years.) Moreover, almost two-thirds of EL students across the state (and many more in some districts) also are LI, so most districts would continue to receive supplemental funding for most EL (and former EL) students even after five years. As such, we believe the Governor’s proposal sends an important message and creates a corresponding fiscal incentive for districts to focus on EL students’ language needs in their initial schooling years, while in most cases maintaining supplemental funds for students who may continue to require additional services thereafter.

How Much Additional Funding Should the State Provide for English Learners (EL) and Lower Income (LI) Students?

Other States’ Supplements Vary Widely. California is not the first state to grapple with how much additional funding to provide for meeting the additional needs of EL/LI students. Our review of the roughly 60 percent of other states that provide such supplements found that funding rates vary notably. States also vary in their approaches to providing supplemental funding, with some taking the “weighted” approach the Governor proposes using in his new formula, and others providing block grants similar to California’s existing Economic Impact Aid categorical program. Additionally, most states provide separate supplemental funding streams for EL and LI students rather than a combined supplement to serve both populations as proposed by the Governor. Based on our review, the Governor’s proposed supplemental rate (35 percent of the general education rate) is higher than the rate provided for either EL or LI students in most other states. A few states, however, provide notably more for EL-specific supplements.

Research Findings Also Differ Significantly. Our review of academic research on EL/LI students revealed a similar lack of consensus regarding the “right” level of supplemental funding to provide. For example, one California-specific study suggested an additional 23 percent of “base” education funding would be sufficient to support the needs of LI students, but an additional 32 percent would be needed for EL students. Another study (conducted in a different state) found that LI students require twice as much funding as their mainstream peers, and EL students require three times as much.

Provides More Flexibility in Addressing Local Priorities. As a result of the state’s approach to categorical funding, today’s K-12 educational delivery system largely is state-directed—districts’ activities and programs are prescribed rather than developed based on local needs. While the state has temporarily suspended many spending requirements in recent years, most of these flexibility provisions currently are scheduled to expire at the end of 2014-15. The Governor’s plan would allow districts to retain and increase local discretion over almost all Proposition 98 funds, enabling districts to more easily dedicate resources to local priorities. This flexibility would give districts the opportunity to pursue innovative and locally driven activities that may not be feasible under current state programmatic requirements.

Refocuses State and Local Responsibilities. Given the state now has a rather extensive accountability system for monitoring student *outcomes*, the rationale for the state to so closely monitor educational *inputs*—or specific district activities—has become less compelling. The Governor’s proposal to repeal most categorical spending requirements would help to refocus responsibilities at both the state and local levels. The state’s primary focus could shift from monitoring compliance with spending rules to monitoring student performance and intervening when districts show signs of struggling. Districts could shift their focus from complying with state requirements to best meeting the needs of their students. Moreover, communities could more confidently hold local school boards and superintendents accountable for district outcomes, since under the new system local entities—not the state—would largely be in charge of designing instructional programs.

Increases Funding for Vast Majority of Districts While Progressing Towards Uniform Target Rates. By simultaneously raising funding

levels for the vast majority of districts *and* equalizing rates across districts, the Governor’s approach concurrently addresses two important policy goals. Over the past few years, all districts have experienced budget cuts. While addressing existing disparities across districts is important, so too is ensuring that all districts are able to address the programmatic effects of recent budget reductions, such as larger class sizes and shorter school years. The Governor’s proposal recognizes these needs and would increase funds across the majority of districts. At the same time, the proposed approach would provide districts that are further away from their targets with comparably greater annual funding increases. This approach is similar to how the state has equalized disparities in district revenue limit rates in prior years.

Some Components of Proposal Raise Concerns

Perpetuates Irrational Funding Differences by Preserving Two Add-On Programs. To improve a funding system he describes as “deeply inequitable,” the Governor consolidates the majority of existing categorical programs into his new formula. Excluding two of the largest and most outdated among them, however, perpetuates funding disparities across districts. Both the TIIG and HTS Transportation programs have outdated formulas that allocate funds disproportionately across districts for no justifiable reason. For example, HTS Transportation allocations are based more on historical costs than existing transportation needs, and nearly 60 percent of funding from the \$855 million TIIG program is allocated to just one school district. Furthermore, removing the spending requirements and locking-in existing allocations negates any argument that the programs are being maintained because they currently serve an important function.

Does Not Ensure Supplemental Funding Translates to Supplemental Services for EL/LI Students. We are concerned that the Governor’s proposed approach to ensuring districts serve EL/LI students—requiring them to document how they plan to spend funding for these students—does not provide sufficient assurance that EL/LI students would receive services *in addition* to those that all students receive. While COE budget reviews presumably would confirm that supplemental funds would somehow benefit EL/LI students, the COE would not be empowered to intervene if the funds were not being used effectively or in a targeted way. Under the proposal, for example, a district could choose to spend the supplemental funds to provide an across-the-board salary increase for teachers, justifying this approach by stating that offering higher salaries would provide EL/LI students (and all other students in the district) with higher quality teachers. This type of approach, however, “spreads” the benefit of the supplemental funds and does not result in additional services for the students with additional needs who generated the additional funding.

Does Not Target Concentration Funding to Those Districts With Highest Concentrations of EL/LI Students. The Governor’s proposal recognizes that as a district’s concentration of EL/LI students increases, the need for, intensity of, and costs associated with supplemental services also tend to go up. We believe the Governor’s threshold for providing the concentration supplement, however, is too low to focus additional funds on those districts that face *disproportionately* greater challenges. Currently, half of all districts in the state have EL/LI student populations making up at least 50 percent of their enrollment. Thus, under the Governor’s proposal, half of all districts would receive supplemental concentration funding. By setting this relatively low threshold, the Governor does not prioritize funding for districts facing

extraordinary levels of additional need over those facing what are essentially *average* levels of need (which the base grant itself presumably is intended to address).

Supplement Calculation Could More Accurately Reflect Student Need. The Governor’s approach to calculating individual districts’ EL/LI student supplement misses an opportunity to more closely align funding with student need. The Governor’s proposal uses districtwide *averages* of EL/LI students to calculate supplements across grade spans, rather than using the counts of how many EL/LI students *actually* are enrolled in each grade level. Grade-specific information on EL/LI students is available and would allow a more accurate calculation of supplements across grade spans. Moreover, the Governor’s proposed approach may overestimate costs and provide excessive funding in some districts. For example, in many unified districts, applying the district average across all grades likely would *overstate* the actual proportion of EL/LI students in high school and *understate* the actual proportion in elementary school, since EL students tend to be more concentrated in the lower grades. Consequently, this likely would result in many unified districts receiving a larger supplement than actual student counts would generate, because a larger portion of their supplements would be calculated from the higher high school base grant rate.

Adds Unnecessary Complexity by Including Separate K-3 and High School Supplements. The Governor’s plan provides grade-span adjusted base funding rates to address differing costs across grades. Applying K-3 and high school supplements in addition to the unique base grants therefore adds complexity to what is an otherwise relatively straightforward formula. Additionally, because the Governor’s proposal does not provide any assurance that the additional funds would be used for their intended purposes, the programmatic

rationale for maintaining the two supplements is not particularly compelling. In the case of K-3, given that districts and local bargaining units would be able to jointly determine any class size—even exceeding 24 students—and still receive the proposed K-3 funding supplement, offering this funding outside the K-3 base rate would not necessarily lead to smaller class sizes. In the case of high school, the supplement would not contain any spending requirements to ensure that the funds would be used to provide CTE services.

Maintains Historical Advantages for Basic Aid Districts. Despite an implied intention to remove the historical funding advantages currently benefiting basic aid districts, the “hold harmless” clause included in the Governor’s proposal would preserve a historical artifact in a new system that is intended to reflect updated data. Guaranteeing that all districts would forever receive the same amount of per-pupil state aid as they did in 2012-13 would continue to augment basic aid districts’ per-pupil funding at a level that exceeds that of other districts.

Does Not Adequately Protect Investments in Facilities. The Governor’s proposal would leave the decision of how much (or how little) to spend on maintaining their facilities up to districts. We are concerned that repealing spending requirements for maintenance would jeopardize the large local and state investments in school facilities made over the past decade. Data on how districts have responded to recent categorical flexibility provisions suggest that competing spending priorities at the local level can lead districts to underinvest in maintaining their facilities. Such practice could result in unsafe conditions, a push to pass new state bonds, and/or additional lawsuits against the state. (The 2001 *Williams v. California* class-action lawsuit was related to improper conditions at school facilities.)

Recommendations

We think the Governor offers a helpful framework for restructuring the funding system, and therefore recommend the Legislature adopt most components of his proposal. We believe, however, that the proposed approach would be improved by some notable modifications. Figure 8 (see next page) summarizes our recommended changes to the Governor’s proposed LCFF, described in more detail below.

Include TIIG and HTS Transportation Funding in New Formula. To maintain consistent funding policies across districts, we recommend the Legislature include both the TIIG and HTS Transportation programs in the proposed categorical consolidation and new funding formula. This would treat these two categorical programs comparably to the vast majority of other existing categorical programs. Excluding these programs would permanently maintain significant funding differences across districts without a rational basis for doing so.

Require That EL/LI Supplemental Funds Be Used to Provide Supplemental Services for EL/LI Students. To help ensure that EL/LI students receive additional services—beyond those that all students receive—we recommend the Legislature place somewhat stronger restrictions on how districts may use the supplemental and concentration funds generated by EL/LI students. Specifically, we recommend adopting broad-based requirements—similar to those of EIA or the federal Title I and Title III programs—that require the supplemental funds be used for the target student groups to *supplement and not supplant* the basic educational services that all students receive. (Title I provisions allow schools with sufficiently high proportions of EL/LI students to use the funds to enhance services for all students. The Legislature could consider developing similar “schoolwide” provisions for the new state supplement.)

Target Concentration Funding to Districts With Highest Concentrations of EL/LI Students.

To better align funding with the greatest need, we recommend the Legislature raise the threshold at which districts qualify for supplemental concentration funding. For example, the additional supplement could be limited for districts in which 70 percent of the student population is EL/LI, rather than 50 percent. We estimate that raising the eligibility threshold in this way would narrow the beneficiaries of the concentration supplement to one-quarter of all districts, as opposed to half of all districts under the Governor's proposal. The Legislature could thereby target the supplemental funds for those districts facing the greatest challenges. Limiting the concentration supplement in this way would free up funds that could be used for other elements of the formula (such as increasing all districts' funding levels to more quickly attain the target rates). Alternatively, the Legislature could consider providing tiered concentration funding rates, such that the districts with the highest concentrations of EL/LI students get the greatest amount of additional resources.

For example, districts with 75 percent EL/LI students might get 20 percent more funding for their additional students, whereas districts with 90 percent EL/LI students might get 35 percent more funding.

Calculate EL/LI Student Supplement Based on Actual Grade-Level Data, Not Districtwide Averages. To improve the accuracy of the new funding formula, we recommend the EL/LI student supplement be calculated based on the actual rates of EL/LI students by grade. This approach—in contrast to the Governor's proposal to apply districtwide average rates of EL/LI students across all grade spans—would fund districts in a way that more closely reflects actual student need and associated costs.

Reject K-3 and High School Supplements. To avoid adding unnecessary complexity, we recommend against including the proposed K-3 and high school funding supplements in the new funding formula. Should the Legislature wish to facilitate districts' abilities to offer lower K-3 class sizes or high school CTE courses, we recommend it simply increase the applicable base rates above

Figure 8

Recommended Modifications to Governor's School District LCFF Proposal

- ✓ Include TIIG and HTS Transportation funding in new formula.
- ✓ Require that EL/LI supplemental funds be used to provide supplemental services for EL/LI students.
- ✓ Target concentration funding to districts with highest concentrations of EL/LI students.
- ✓ Calculate EL/LI student supplement based on actual grade-level data, not districtwide averages.
- ✓ Reject K-3 and high school supplements.
- ✓ Minimize historical advantages for basic aid districts.
- ✓ Maintain basic requirements for facility maintenance.

LCFF = Local Control Funding Formula; TIIG = Targeted Instructional Improvement Block Grant; HTS = Home-to-School; EL = English learner; and LI = lower income.

the levels proposed by the Governor. (This would have the effect of increasing funding for EL/LI students as well, since the 35 percent supplement would be calculated off of higher base rates.) As the Legislature considers whether to adjust the proposed base rates, we would note that the Governor’s proposed 9-12 base rate already is nearly 16 percent (or about \$1,000) above the 7-8 rate. This amount may already be sufficient to provide a full high school program, including CTE services.

Minimize Historical Advantages for Basic Aid Districts. To prioritize limited state funds for those districts that do not benefit from excess LPT revenue, we recommend rejecting the Governor’s proposal to guarantee districts the same level of state aid they received in 2012-13. We do, however, recommend adopting the Governor’s proposal to count LPT revenue towards a district’s *entire* LCFF grant, including both the base and supplemental grants. Under our modified approach, basic

aid districts whose LPT revenues exceed their calculated LCFF levels would not receive any state aid beyond the minimum constitutional obligation of \$120 per pupil. This would end the current practice of providing basic aid districts with state categorical aid in addition to their excess LPT revenue—often resulting in notably higher per-pupil funding rates compared to other districts.

Maintain Basic Requirements for Facility Maintenance. To ensure that districts continue to protect state and local investments and maintain safe school facilities, we recommend the Legislature require districts to dedicate a portion of their General Fund expenditures—between 3 percent and 4 percent—to facility maintenance. This approach would establish requirements not included in the Governor’s approach, but would be more streamlined than previous practice (which included two distinct spending requirements, one for routine and one for deferred maintenance).

COUNTY OFFICES OF EDUCATION

This section describes and assesses the changes the Governor proposes for COEs.

Background

Below, we provide background on the four major functions of COEs. These functions encompass a range of activities and are funded by a variety of sources.

General Overview

California’s 58 COEs Serve School Districts and Students. The State Constitution establishes the County Superintendent of Schools position in each of the state’s 58 counties. Most county superintendents are elected, but five are appointed locally. All county superintendents have established COEs to fulfill their duties. Initially, these duties

consisted of broadly defined responsibilities, such as to “superintend the schools” of the county and to “enforce the course of study” at those schools. Over time, however, the state has tasked COEs with some more specific responsibilities and funded them to provide numerous regional services.

COEs Have Multiple Responsibilities. The COEs conduct a variety of activities, some of which serve school district staff and some of which serve students directly. In 2012-13, COEs received roughly \$1 billion in state funds and LPT revenue to support these activities. Figure 9 (see next page) provides an overview of current COE responsibilities and their associated funding. These activities generally fall into four major areas: (1) regional services, (2) alternative education, (3) additional student instruction and

support, and (4) academic intervention. Given the notable diversity of district and student characteristics across counties, the extent of these activities varies widely by COE. Below, we describe each of these responsibilities in greater detail.

Regional Services

All COEs Provide Some Administrative Services for School Districts. The COEs provide a variety of administrative and business services for districts in their counties. Some of these activities are required by state law, such as verifying the

Figure 9

County Offices of Education (COEs) Have Several Responsibilities

Approximate Funding Levels in 2012-13

Regional Services (\$380 Million)

- ✓ **Administrative Services for School Districts (\$300 Million).** Administrative and business services provided to school districts within the county.
- ✓ **Additional Services for Small Districts (\$10 Million).** Additional administrative services for small school districts within the county.
- ✓ **Programmatic Services for Districts (\$60 Million).** Certain types of support provided for school districts within the county, such as professional development, services for beginning teachers, and technology support.
- ✓ **District Oversight (\$10 Million).** Oversight of district budgets and monitoring district compliance with two education lawsuits.

Alternative Education (\$300 Million)

- ✓ **Juvenile Court Schools (\$100 Million).** Instruction and support for incarcerated youth.
- ✓ **County Community and County Community Day Schools (\$160 Million).** Instruction and support for students who cannot or opt not to attend district-run schools, including those who have been expelled or referred by a probation officer or truancy board.
- ✓ **Categorical Funding for Alternative Education (\$40 Million).** Additional funding for services in COE alternative settings. Examples of specific funding grants include the Instructional Materials Block Grant, Economic Impact Aid, and the Arts and Music Block Grant.

Additional Student Instruction and Support (Funding Varies)

- ✓ **Regional Occupational Centers and Programs (\$150 Million).** Career technical education and training for high school students.
- ✓ **Other Student Services (Funding Varies).** Includes instruction and services for specific student populations, including foster youth, pregnant and parenting students, adults in correctional facilities, migrant students, and young children needing child care and preschool.

Academic Intervention (Funding Varies)

- ✓ **Support and Intervention (Funding Varies).** Various services for schools and districts identified as needing intervention under the state or federal accountability systems. Specific initiatives include the State System of School Support, District Assistance and Intervention Teams, and Title III assistance.

qualifications of teachers hired by school districts. Additionally, many COEs have opted to provide other administrative services based on local circumstances and district needs. For example, most COEs operate countywide payroll systems and provide human resources support for their districts. Generally, these activities are funded by a base revenue limit grant of general purpose funds, although some districts also purchase some services from COEs on a fee-for-service basis. The base grant provides each COE with a per-pupil funding rate based on countywide ADA. These per-pupil rates range from \$24 to \$465 per ADA and are determined primarily by historical factors. The base grant also supports general COE operational costs.

Many Small Districts Require Additional Services. The COEs tend to provide greater levels of administrative support for smaller school districts. Smaller districts often lack economies of scale and tend to rely on their COEs to provide such services as school nurses, guidance counselors, and librarians, instead of hiring these personnel on their own. In addition to the base grant, COEs located in counties containing smaller school districts receive supplemental general purpose funding. For the purposes of this funding, a small school district is defined as one serving 1,500 or fewer ADA. (Lower ADA thresholds apply for elementary and high school districts.) The COEs receive between \$52 and \$143 per ADA in these districts, with the specific rates differing across counties. Like the base revenue limit grants, these per-pupil funding rates are determined largely by historical factors.

Most COEs Provide Programmatic Services for Their Districts. The COEs also perform a variety of other tasks to meet the needs of school districts within their counties. Examples include providing professional development, support for beginning teachers, technology services,

and technical assistance for various district-run categorical programs. Many of these activities are funded through state categorical grants, the largest of which are the Beginning Teacher Support and Assessment (BTSA) program and the California Technology Assistance Program (CTAP). The amount of funding each COE receives to provide programmatic support varies based on historical participation in individual programs. Additionally, districts sometimes purchase these types of services from COEs. For example, some COEs charge fees when a district's teachers attend professional development sessions.

All COEs Tasked With Overseeing Some District Activities. The state has established three specific district oversight roles for all COEs—funded through three discrete categorical grants—relating to monitoring districts' fiscal status and compliance with two lawsuits. Legislation adopted in 1991 requires all COEs to review and approve the annual budgets of school districts within their county. The legislation further requires COEs to monitor districts during the year and intervene if their financial situations begin to deteriorate. (These responsibilities sometimes are referred to as "AB 1200" requirements after the establishing legislation.) Additionally, the state requires COEs to monitor school districts' activities associated with two lawsuits (*Williams v. California* and *Valenzuela v. O'Connell*). The *Williams* requirements relate to maintaining adequate school facilities, sufficient instructional materials, and qualified teachers. The *Valenzuela* requirements relate to providing supplemental services for high school seniors who fail to pass the high school exit examination.

Alternative Education

The COEs Run Alternative Schools for Certain Students. Besides providing support services for districts, one of the primary functions of COEs

is to provide classroom instruction for students who cannot (or, in some limited cases, opt not) to attend their local district-run schools. These students need alternative settings for a variety of reasons, including chronic truancy, expulsion, or incarceration. Most individual districts are not equipped to provide such services for the few students in the district who require them.

Three Types of COE Alternative Schools.

The COEs operate three types of alternative schools—juvenile court schools, county community schools, and community day schools (CDS)—for students needing alternative education settings. In these schools, the COE employs the teachers, oversees the students’ instructional program, and runs the facility. The basic funding model for these programs is similar to school districts—the state provides the COEs with a per-pupil revenue limit and various categorical grants for the students attending their schools. The revenue limit rate for most students in COE alternative education programs is roughly 40 percent higher than the average revenue limit rate in a high school district. (Most, but not all, students in alternative settings are in high school.) This higher rate is intended to support smaller class sizes, individualized student support, and more rigorous security precautions. Below, we describe some of the basic components of each type of COE alternative school. Generally, the schools represent a continuum—with court schools serving the students with the most severe challenges in the most secure settings, and CDS serving students with relatively fewer challenges in less restrictive school settings.

- ***Juvenile Court Schools.*** These programs serve students under the authority of the juvenile justice system. All students generate a higher revenue limit rate, which averaged \$8,550 per ADA in 2012-13. These schools must offer at least four hours of daily instruction.

- ***County Community Schools.*** These programs serve several types of students. Students who have been mandatorily expelled, referred by a probation officer, or are on probation generate funding at the same rate as court school students (\$8,550 per ADA). In contrast, students who are expelled for non-mandatory reasons, referred by a truancy board, or voluntarily placed in a community school generate the revenue limit rate of their home school district (on average, \$6,000 per ADA in a high school district). These schools must offer at least four hours of daily instruction.
- ***COE CDS.*** These programs serve students who have been expelled for any reason, referred by a probation officer, or referred by a truancy board. Students at these schools generate \$12,750 per ADA—consisting of the base court school rate (\$8,550 per ADA) plus \$4,200 per ADA for providing a longer school day (six hours). Some school districts also operate CDS for similar students, but district CDS are funded at the district’s revenue limit rate plus additional funding for the fifth and sixth hour. (Since 2009, most CDS funding allocations for the fifth and sixth hour have been “frozen” and subject to categorical flexibility provisions.)

Additional Student Instruction and Support

Alternative schools are the largest COE instructional programs, and students attending those programs are the only students for whom COEs maintain full responsibility for educating. Yet many COEs also operate specialized programs that provide instructional services to other types of students. All of these activities are funded through discrete state or federal categorical grants.

Many COEs Provide ROCP Services for Students Attending Local Districts. The ROCPs are among the most substantial of COE-run instructional activities. The ROCPs provide CTE services to students ages 16 and older. Coursework typically takes place both in traditional classroom settings as well as at employer job sites. About half of total state funding for ROCPs is allocated to 38 COEs to provide services mostly for students who attend district-run high schools in the region. (The remaining ROCP funds are provided to individual school districts and consortia of districts.) The ROCP grant is among the programs affected by recent categorical flexibility provisions. Since 2009, COEs receiving ROCP grants have been allowed to use the funds for any purpose.

Other Student Services. Many COEs provide direct instruction or support services for special groups of students. For example, the state funds many COEs to provide educational support for foster youth, pregnant and parenting students, and adults in correctional facilities. A federal grant funds many COEs to provide educational support for migrant students, and child care services are funded through a combination of state and federal sources.

Academic Intervention

The COEs Support Struggling Schools and Districts. In recent years, the state has tasked COEs with providing specialized support and intervention for schools and districts that have been flagged as low performers in the state and federal accountability systems. Generally, these initiatives require COEs to provide intensive professional development, data analysis, curriculum review, monitoring, and other technical assistance to schools and/or districts. Specific initiatives have included the State System of School Support, District Assistance and Intervention Teams, and Title III accountability intervention. Most of

the funding to support these activities has been provided through federal grants.

Governor's Proposals

The Governor proposes to change the state's approach to funding many COE responsibilities. Specifically, he would collapse many existing funding streams into a simplified, two-part formula.

General Overview

Replaces Much of Existing System With Two-Part Funding Formula. The Governor proposes replacing the existing COE funding model with a new two-part funding formula. As shown in Figure 10 (see next page), the formula includes funding to (1) provide regional services to districts and (2) educate students in COE-run alternative schools. While the amounts associated with these two responsibilities would be calculated through two separate formulas, the funds would be combined into one allocation that COEs could use for either purpose. Consistent with his overall approach for districts, the Governor would establish funding targets for each COE and build toward those targets over a number of years. Each COE's funding target would be the sum of its calculated allotments under the regional services formula and the alternative education formula. The Governor's 2013-14 budget proposal includes a \$28 million augmentation to begin this process for COEs.

Eliminates Some Categorical Program Requirements. Similar to his district proposals, the Governor proposes eliminating many categorical program requirements for COEs. The most notable eliminations for COEs include requirements related to ROCPs, BTSA, CTAP, foster youth services, and services for pregnant and parenting students. Districts essentially would assume responsibility for the functions COEs currently perform with these

funds, and districts would have discretion over how much—if any—of their LCFF allocations to use for maintaining similar activities. (The proposed district funding supplements for high school and EL/LI are explicitly designed to help districts address CTE and foster youth needs.) Despite these shifts in responsibility, the Governor proposes allowing COEs to keep the funding they currently receive for these categorical programs. These funds would become general purpose and apply towards each COE’s funding target under the new formula. (One additional COE categorical-funded activity—educating adults in correctional facilities—would be eliminated and likely would not shift to districts, but rather would be left up to COEs to continue—or not—using COE LCFF funds.)

Maintains Some Categorical Programs. Some programmatic requirements would continue to

apply to COEs. Some of these requirements also apply for school districts and were described earlier in this report (such as after school programs, child nutrition, and special education). In addition, the Governor would maintain existing requirements for three grants that are allocated to individual COEs to perform statewide functions—the K-12 High-Speed Network, California School Information Services, and the Fiscal Crisis and Management Assistance Team. The Governor also would maintain child care, migrant education, and academic intervention as separately funded activities.

Regional Services

Creates New Approach for Funding Regional Services. The Governor would fund the majority of COE activities—other than alternative

Figure 10

Overview of Governor’s Local Control Funding Formula for COEs

Formula Component	Proposal
Regional Services	
Target amount per COE	<ul style="list-style-type: none"> • \$655,920 for base grant. • Additional \$109,320 per school district in the county. • Additional \$40 to \$70 per ADA in the county (less populous counties would receive higher per-ADA rates).
Required oversight activities	<ul style="list-style-type: none"> • Reviewing school district budgets and accountability plans. • Monitoring district activities related to <i>Williams v. California</i> lawsuit.
Alternative Education	
Eligible student population	<ul style="list-style-type: none"> • Students who are (1) incarcerated, (2) on probation, (3) probation-referred, or (4) mandatorily expelled.
Target amount for base grant (per ADA)	<ul style="list-style-type: none"> • \$11,045.
Supplemental funding for EL, LI, and foster youth	<ul style="list-style-type: none"> • Additional 35 percent of COE base grant. • Juvenile court schools: assumes 100 percent of students fall into these groups (provides additional 35 percent grant for all students).
Supplemental concentration funding	<ul style="list-style-type: none"> • Additional 35 percent of COE base grant for EL/LI students above 50 percent of enrollment. • Juvenile court schools: assumes 100 percent of students are EL/LI (provides additional 35 percent grant for half of all students).
Annual Plan and Transition	
	<ul style="list-style-type: none"> • Annual local accountability plan would be submitted to State Superintendent of Public Instruction. • Transitions to target amounts within a few years.

COE = county office of education; ADA = average daily attendance; EL = English learner; and LI = lower income.

education—with one allotment for regional services. This grant would replace the roughly \$380 million in state funding COEs currently receive for (1) administrative services for districts, (2) small district services, (3) programmatic services for districts, and (4) district oversight.

New Regional Services Formula Includes Three Components. The top part of Figure 10 describes the Governor’s proposed approach to calculating funding for COE regional services. Under the proposed approach, each COE’s target funding level would be calculated based on three components. (The administration derived the specific funding amounts for each component through consultation with county superintendents from across the state.)

- ***Base Grant.*** Each COE would get \$655,920. This amount is intended to cover basic COE operations.
- ***District-Based Grants.*** Each COE would receive an additional grant of \$109,320 for each school district within its county. This approach is based on the assumption that additional districts generate additional responsibilities and costs for COEs.
- ***ADA-Based Grants.*** Each COE would receive additional funding per countywide ADA. The per-pupil rates would be tiered. Specifically, the COEs would receive \$70 per ADA for the first 30,000 ADA in the county; \$60 per ADA between 30,000 and 60,000; \$50 per ADA between 60,000 and 140,000; and \$40 for any ADA above 140,000. This approach is based on the assumption that COEs in more populous counties face additional responsibilities and costs, but that economies of scale reduce the magnitude of these cost differentials.

Based on the different components, we estimate funding targets for individual COEs would range from about \$775,000 (Alpine County) to about \$73 million (Los Angeles County). At full implementation, we estimate statewide regional service funding would total approximately \$450 million. This includes about \$40 million for base grants, \$110 million for district grants, and \$300 million for ADA grants. The Governor also proposes providing an annual COLA for each component of the formula, such that each COE’s funding target would grow over time.

Leaves COEs With Broad Discretion Over How to Use Funds. The proposed regional services grant would be unrestricted and available for any COE activity. The COEs still would be required to perform a few activities, including AB 1200 and *Williams* oversight responsibilities. (The administration believes *Valenzuela*-related oversight no longer would be required under the proposed LCFF approach.) As described above, however, several existing programmatic requirements would be removed. Each COE would have discretion over whether to (1) use its regional service funding to continue providing similar services, (2) support such activities by charging fees to school district participants, or (3) discontinue some of its current activities.

Requires Additional Oversight of School Districts. As discussed in the first part of this report, the Governor would place a new oversight responsibility on COEs. Specifically, the proposal would require each COE to review the local accountability plans of all school districts within its county concurrently with its review of district budgets. The COE would perform this review annually or as often as the district updated its plan. Separately, each COE would be required to validate each district’s count of its EL/LI students—also a new responsibility compared to current law. The COEs would use their regional services funding to support these new activities.

Alternative Education

Creates Alternative Education Formula.

Separate from the amount calculated for regional services, the Governor would calculate a funding allotment to support COE alternative schools. The proposed approach for COE alternative schools is very similar to that proposed for school districts in that it (1) replaces the current revenue limit and categorical approach; (2) includes a base grant for each student plus supplemental and concentration funding for EL and LI students; and (3) removes spending requirements, leaving expenditure decisions largely to COEs' discretion. The base rates and funding supplements proposed for alternative schools differ somewhat from the district proposal, however, as described below.

Includes Target Base Funding Rate. Similar to his approach for establishing school district target base rates, the Governor would set the COE alternative education target base rate at the current undeficit COE juvenile court school revenue limit rate, which reflects the rate COEs otherwise would have received were it not for recent base reductions and foregone COLAs. This rate is designed to be higher than the average district revenue limit rate. The Governor proposes a target base rate of \$11,045 per ADA for students in COE alternative education programs. Moving forward, this target rate would be adjusted for annual COLAs, similar to the district rates. (The COE base funding rate already incorporates a COLA for 2013-14.) In contrast to the district proposal, however, the Governor would provide a uniform base rate for all COE students, rather than a rate based on grade span. The proposed COE formula also excludes the K-3 and high school funding supplements that districts would receive. The new COE rate would apply for all COE alternative settings, and CDS no longer would be eligible for separate additional funding if students attend for six hours.

Includes Supplemental and Concentration Grants, Calculated From Higher Base Rate.

Similar to his proposal for school districts, the Governor would provide a supplemental grant equal to 35 percent of base funding for each COE alternative education student identified as EL, LI, or foster youth. Also comparable to his school district proposal, the Governor would provide an additional concentration grant to COEs if at least half of all students attending their alternative schools are EL/LI. Because the EL/LI and concentration supplemental grants would be calculated as 35 percent of the higher COE base grant of \$11,045, however, COEs would receive significantly more supplemental funding than school districts. (A student attending a COE school could generate up to \$7,732 in supplemental and concentration funding, while an EL/LI student attending a district-run high school could generate up to \$5,376 in additional funding.)

Juvenile Court Schools Automatically Would Receive EL/LI and Concentration Supplements for All Students. The Governor's proposal would fund juvenile court schools based on the assumption that all their students are EL, LI, or foster youth and therefore generate the additional EL/LI and concentration funding supplements. (This approach is the equivalent of providing \$16,844 for every student in a court school.) This contrasts with the funding approach for school districts, charter schools, county community schools, and county CDS, where supplemental funds only would be provided based on how many students with these characteristics had been documented. The administration proposes this approach because juvenile court schools tend to have high rates of student turnover, so collecting individual student demographic data can be difficult.

Defines Which Students the State Would Fund COEs to Serve . . . As shown in Figure 11, the Governor's proposal explicitly defines four groups of

students who would be the responsibility of COEs. Specifically, COEs would be funded at the higher base rate for students who are (1) incarcerated, (2) on probation, (3) referred by a probation officer, or (4) mandatorily expelled. The COEs no longer would receive funding directly from the state for other types of alternative students they sometimes now serve (such as students referred by truancy boards or students expelled for non-mandatory offenses). The proposed delineation differs from current law, under which similar types of students can be assigned either to COE-run programs (and funded at the court school rate) or district-run programs (and funded at the district rate).

. . . But Continues to Allow Districts and COEs to Negotiate Other Service Arrangements. The Governor would allow districts and COEs to negotiate funding pass-through agreements whereby a district could contract with a COE for the education of alternative students who are not among the four identified COE groups. Under such an arrangement, the state still would provide funding to the district for these students (at the district rate), but the district would transfer this base and supplemental funding to the COE. (Current law already allows this type of local pass-through arrangement with revenue limit funding.)

Establishes Four-Hour Minimum Instructional Day for All COE Alternative Settings. The Governor would eliminate the requirement that COE-run CDS operate a six-hour instructional day. Instead, all COE alternative settings would

be required to offer a minimum of four hours of daily instruction. The COEs would have the option of operating a longer school day, but would not receive additional funding for doing so. (The administration indicates it intends to establish a four-hour minimum day for district-run CDS too.)

Accountability and Transition

Requires Adoption of Local Accountability Plan. Similar to school districts, the Governor’s proposal would require COEs to develop annual Local Control and Accountability Plans describing how they would use LCFF funds to serve the school districts and students within their counties. Related to regional services, the plans would have to describe which services the COE planned to provide for districts within the county. Related to alternative education, the plans would have to contain similar elements as described earlier for the district plans (including how supplemental EL/LI and concentration funds would support EL/LI students). The COE governing boards annually would adopt these plans and make them available

Figure 11
Governor’s Proposal Clarifies Which Students Would Be Served in Which Alternative Programs

	Current Law	Governor’s Proposal
Students funded only through COE	<ul style="list-style-type: none"> • Incarcerated • On probation 	<ul style="list-style-type: none"> • Incarcerated • On probation • Referred by probation officer • Mandatorily expelled
Students funded only through district	<ul style="list-style-type: none"> • Suspended • Irregular attendance • Volunteers for alternative placement 	<ul style="list-style-type: none"> • Suspended • Irregular attendance • Volunteers for alternative placement • Referred by truancy board • Non-mandatorily expelled
Students funded through COE or district	<ul style="list-style-type: none"> • Mandatorily expelled • Non-mandatorily expelled • Referred by probation officer • Referred by truancy board 	None ^a

^a Under the Governor’s proposal, each type of affected student would be assigned directly to either the COE or the district. COE = county office of education.

for public review. The State Superintendent of Public Instruction (SPI) would play the same role in reviewing these COE plans as COEs would for district plans. That is, concurrent with a review of the COE's budget, the SPI would verify that its accountability plan contained all required elements and its budget provided sufficient resources to implement the activities described in the plan. The SPI's approval of a COE's budget would be contingent on confirming that the plan and budget met these requirements—essentially the same standard school districts would need to meet when submitting their budgets to COEs.

Transitions to New Formula as Funds Become Available. The Governor estimates the cost of fully implementing the new two-part COE funding formula to be roughly \$59 million. Similar to his proposal for school districts, the Governor gradually would increase the funding for each COE until the target levels were reached. The *2013-14 Governor's Budget* proposes a \$28 million augmentation to begin this process, or roughly half of the total implementation cost. Each COE that currently is funded below its target level would get a share of the new funding sufficient to close about half of its individual funding gap. Similar to districts, COEs with current funding bases that meet or exceed their new LCFF targets would not receive additional funds in 2013-14, but they would be held harmless against funding losses.

“Freed Up” Categorical Funds Diminish Gap Between Existing and Target Funding Levels for Many COEs. As with districts, each COE's current base would be calculated according to the amount it received in 2012-13 from revenue limits and state categorical programs. For COEs, this would include funds that currently support both services for districts (such as administrative support and regional categorical activities) and services for students (such as alternative education and ROCP). The administration estimates that about 25, or

fewer than half of COEs, currently receive less than their target levels. This is notably lower than the proportion of school districts (about 90 percent) that are below their targets. This is because many COEs currently receive a substantial amount of categorical funds to provide regional and student services—particularly from the ROCP, BTSA, and CTAP programs—that now would be freed up and become part of their general purpose funding base.

LAO Assessment

Figure 12 summarizes our assessment of the Governor's COE funding proposal. As with his district proposal, we believe the Governor's proposed approach to restructuring the way the state funds COEs has positive elements. We think the general framework of combining multiple funding streams and focusing on core areas of responsibility makes sense. We are concerned, however, that some elements of the Governor's approach are not well developed. Principally, we are concerned that the Governor's proposed funding rates for both regional services and alternative education exceed the associated costs. Below, we discuss our assessment of the strengths and weaknesses of the Governor's proposed funding formula for COEs.

Governor's Proposal Has Two Key Strengths

Simplifies COE Funding and Eliminates Funding Disparities. The Governor's proposed COE funding formula represents a notable improvement over the existing complicated mix of multiple funding streams. The existing formulas apportioning COE funds are poorly understood and provide divergent funding rates across counties for historical—rather than rational—reasons. In contrast, the Governor's proposed two-part formula would be relatively simple and streamlined, be based on factors that are easy to calculate and understand, and fund all COEs based on the same criteria.

Improves Alternative Education System by Establishing Consistent Policies and Funding Rates. The Governor’s proposal addresses some existing inconsistencies in how the state organizes and funds alternative education. Under current law, similar students can be subject to different funding rules. For example, under current law, mandatorily expelled students can be served by either COEs (in a county community school or a CDS) and funded at the higher COE revenue limit rate of approximately \$8,550 per ADA, or by school districts (in a district CDS) and funded at the lower district rate of approximately \$6,000 per ADA. There also are discrepancies within COE programs. For example, a student at a CDS operated by a COE is eligible for supplemental funding when attending school for a full six hours, but the same type of student served in a county community school generates no additional funding for any instructional time beyond the four hour minimum school day. The Governor’s proposal eliminates these distinctions between similar settings and similar students and instead (1) clarifies which students the state would assign to COE alternative schools and which to district schools and (2) establishes consistent rates for all students assigned to any COE-run alternative school.

Some Components of Proposal Raise Concerns

Increases Funding Levels for Regional Services While Reducing Statutory Responsibilities. The Governor proposes to increase funding for COEs while requiring them to do less. Under the Governor’s LCFF proposal, individual COEs would be allocated at least as much funding as they currently receive from the funding streams being merged into the new regional services formula. Specifically, we estimate this component of the LCFF would total roughly \$450 million once fully implemented, compared to the roughly \$380 million COEs receive for regional services today. At the same time, however, the Governor would eliminate required programmatic activities (such as BTSA and CTAP) associated with roughly \$60 million of these funds. Combining these freed up funds with the estimated \$70 million overall increase for regional services, the Governor essentially would be increasing general purpose funding for COEs by about \$130 million, or almost 35 percent, while only adding one new responsibility (reviewing local district accountability plans).

Makes Holding COEs Accountable for Regional Services Even More Difficult. The Governor’s proposal compounds the existing lack of

Figure 12

Strengths and Weaknesses of Governor’s Approach for COEs

Strengths

- ✓ Simplifies COE funding and eliminates funding disparities.
- ✓ Improves alternative education system by establishing consistent policies and funding rates.

Weaknesses

- ✓ Increases funding levels for regional services while reducing statutory responsibilities.
- ✓ Makes holding COEs accountable for regional services even more difficult.
- ✓ Substantially increases alternative education funding without clear justification.

COE = county office of education.

accountability over how COEs spend their regional funding allotments. Under the current system, the state requires COEs to use a portion of these funds to conduct a few specific activities, but generally the costs of performing statutory requirements are much lower than the amount of funding provided. The state largely leaves it up to each COE to define what to do with these funds. Guaranteeing each COE a sizeable regional service funding allotment without a clear mission or well-defined expectations provides few fiscal incentives for COEs to provide the most cost-effective and beneficial services for districts. Moreover, few benchmarks exist by which the public can assess whether COEs are fulfilling their mission and providing valuable services. By increasing funding, doing nothing to clarify COEs' core mission, and reducing expectations, the Governor's proposal compounds all these existing problems.

Substantially Increases Alternative Education Funding Without Clear Justification. The Governor's formula would provide substantially more funding for alternative schools without a clear rationale for why these higher rates are warranted. Once target rates are achieved, juvenile court schools would receive a total of \$16,844 per ADA. Because county community schools and county CDS also tend to serve high concentrations of EL/LI students, they also would receive high per-pupil rates. In

contrast, we estimate the state currently provides an average of \$10,050 for students in court schools and county community schools—\$8,550 in base revenue limit funding and about \$1,500 in categorical funding (with higher rates applying to CDS). Although some COEs have indicated spending more on their alternative programs than the state currently provides in funding (by redirecting general purpose dollars to alternative schools), this assertion is not substantiated by state accounting data. (See the nearby box for a discussion of expenditures.) Even at the higher undeficit revenue limit rate, court school rates would average about \$12,500 per ADA (including base and categorical funding). The Governor does not provide a clear rationale for proposing a funding rate that so notably exceeds existing levels. Furthermore, even at these high funding rates, COEs' alternative schools would be required to offer only a four-hour instructional day.

Recommendations

As with his school district proposals, we think the Governor's COE proposals offer a helpful funding framework, but we think they could be improved with some modifications. In particular, we suggest the Legislature reconsider the target funding rates the Governor proposes for the two core COE responsibilities. Figure 13 summarizes our

State Accounting Data Shows Relatively Low Per-Pupil Expenditures

The state requires all school districts and county offices of education (COEs) to report their annual expenditures to the state using uniform accounting codes. In 2010-11 (the most recent year for which data are available), COEs reported spending about \$9,000 per average daily attendance (ADA) in juvenile court schools and county community schools. In community day schools, which offer a longer school day, spending was closer to \$14,000 per ADA. Representatives from several COEs with whom we spoke indicated that COEs spend considerably more on their alternative schools than indicated by these data, but that COEs frequently do not accurately identify these expenditures within the state's accounting system. To date, however, COEs have provided no other concrete, uniform, statewide expenditure data for the state's review.

three specific recommendations for modifying the Governor’s proposed COE LCFF, which we discuss in more detail below.

Define Which Services the State Should Require COEs to Provide. We recommend the Legislature carefully consider what role COEs should play in the state’s education delivery system and explicitly require them to perform any activities the Legislature deems vitally important. The Governor’s proposal includes relatively few mandatory responsibilities for COEs, leaving it up to individual COEs to define their roles and menus of services at the regional level. The Legislature could scale back COE requirements significantly, consistent with the Governor’s proposal. Alternatively, the Legislature could require that at least some COEs provide other high priority services—such as additional educational oversight responsibilities. For example, the state could empower some or all COEs to assess the effectiveness of districts’ instructional approaches and intervene or provide technical assistance when necessary.

Align Regional Service Funding Rates With Regional Services Required. While the Governor’s overall approach of calculating COE regional service funding based on the number of districts and students in the county generally is reasonable, we believe the proposed rates are too high. Whether the Legislature adopts the Governor’s proposal to reduce COE responsibilities or specifies some additional COE responsibilities, we recommend the Legislature set COE regional service funding rates based on the costs associated with the specific activities COEs would be required to perform under the new system. We recommend that any other services

be determined and funded at the district level. Our approach likely would result in reductions to existing COE regional service funding rates, as they currently receive notable amounts of general purpose funds. While there are benefits to letting individual COEs customize specific services based on local needs, providing a sizeable and guaranteed state funding grant to support such activities does not incentivize or hold COEs accountable for providing cost-effective services. Our alternative would allow local districts to fund COEs—through local fee-for-service arrangements—for any discretionary local activities that districts find helpful. A number of school districts already have established this type of relationship with their COE for various services. This arrangement leaves programmatic decisions at the local level, provides fiscal incentives for COEs to offer cost-effective support, and allows districts to hold COEs accountable by deciding whether to purchase COE services based on their value.

Establish Alternative Education Rate That Aligns With Differential Cost of Providing Instruction. We recommend the Legislature base the COE alternative education funding rate on the cost differential COE alternative schools face. Under current law, the per-pupil funding rate for most students attending COE alternative schools is roughly 40 percent higher than the average high school district rate. While the actual cost differential

Figure 13

Recommended Modifications to Governor’s COE LCFF Proposal

- ✓ Define which services the state should require COEs to provide.
- ✓ Align regional service funding rates with regional services required.
- ✓ Establish alternative education rate that aligns with differential cost of providing instruction.

COE = county office of education and LCFF = Local Control Funding Formula.

between alternative schools and traditional high schools is not entirely clear (given some concerns with the underlying data), alternative schools tend to have higher costs due to smaller class sizes and more instructional aides. (Court schools and county community schools, however, typically have a shorter school day that offsets some of these higher costs.) Whereas a 40 percent differential might not be a precise reflection of the actual cost differential, available data appear to suggest that the differential is no greater than 40 percent. Were the state to

maintain this differential, the total COE alternative school per-pupil rate would be \$14,515 (40 percent more than Governor's proposed high school target rate of \$7,680 plus a 35 percent EL/LI supplement). While this is about \$2,000 lower than what the Governor proposes to provide, it is about \$4,500 more than what the state currently provides for these students. Moving forward, if the Legislature were to increase the alternative school funding rate this significantly, it may want to consider whether alternative schools should be required to run a regular six-hour instructional day.

CONCLUSION

In conclusion, we believe there are a few key issues for the Legislature to keep in mind as it considers how to proceed with the Governor's LCFF proposal.

Current System Is Untenable. How best to improve upon the existing K-12 funding system has been discussed by many groups for many years. We believe, however, that the need for action grows increasingly urgent. Aside from all of the longstanding, underlying problems with the state's categorical programs, changes resulting from the state's decision in 2009 to temporarily remove spending restrictions from about 40 categorical programs have made the current system even more irrational. Specifically, data indicate that most districts have shifted substantial funding away from many "flexed" categorical programs. Additionally, the state has frozen district allocations for these programs at 2008-09 levels, continuing to distribute the same proportion of funds to each district regardless of changes in student enrollments during the ensuing years. These two trends have increasingly disconnected existing funding allocations from the original categorical purposes and student needs for which

they were originally intended. Moreover, these changes make the prospect of reestablishing the previous programmatic requirements seem increasingly impractical—yet categorical flexibility provisions currently are scheduled to expire at the end of 2014-15.

Projected Growth in Proposition 98 Funding Can Facilitate Transition to New System. Not only does a strong rationale exist for restructuring the current flawed system, but projected annual growth in the Proposition 98 minimum guarantee for 2013-14 and the ensuing several years provides a unique opportunity to transition to a more rational system without redistributing funding *away* from any district. The growth in funding can be used to phase in a new formula, restoring recent reductions for the majority of districts *and* allocating a share of new funds in a way that more closely aligns with current student needs.

Governor's Restructuring Approach Is Just One of Several Options. Adopting the Governor's proposed formula is not the only way to improve the existing K-12 funding system. The Legislature could opt to modify various components of the Governor's proposal—based on our

recommendations, or in other ways—or opt for a somewhat different allocation methodology, such as block grants. A wide variety of restructuring approaches still would meet the guiding principles of simplicity, transparency, rationality, and flexibility in K-12 funding.

Simplifying a Complex System Will Not Be Simple. Adopting any large-scale change to K-12 funding will necessitate reconsideration of numerous requirements associated with previous categorical programs. For example, requirements related to how teachers achieve “clear” teaching credentials, which textbooks schools use, and how districts assist students who have not passed the high school exit exam all are linked to current categorical programs. Thus, a myriad of statutory and regulatory changes likely will need to be made as a new funding approach is being developed. The fact that it will be an involved and complex endeavor, however, is not in and of itself a reason to avoid changing the fundamentally flawed existing system.

Funding Reform Is Not a Panacea . . . Regardless of which funding approach the Legislature ultimately adopts, restructuring the state’s allocation formulas will not be a panacea for all of the state’s K-12 education challenges. Changing the funding system will not guarantee

improved student outcomes; providing additional funding for EL/LI students will not automatically lead them to overcome the additional challenges they face; and increasing flexibility will not necessarily translate to improved instruction in all schools. These desired outcomes, however, also are not guaranteed—or uniformly taking place—under the current categorical system. There clearly are other K-12 issues outside the scope of this report that merit additional action, including how to identify and assist struggling schools and districts, develop strong local leaders, and refine accountability systems. Yet the need to address these concerns will exist *regardless* of whether the state chooses to modify or maintain the existing funding structure.

. . . But Improving the State’s School Funding System Is Critical. Restructuring the funding system will be a complex undertaking, and it will not solve every K-12 challenge. Changing the funding approach would, however, improve upon some fundamental problems. We believe that neither the complexities associated with implementing broad-based change nor the need to better develop other areas of the K-12 system should preclude the state from making significant, necessary, and immediate improvements to school funding.

2013-14 BUDGET

2013-14 BUDGET

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