

## GLENDALE UNIFIED SCHOOL DISTRICT

February 5, 2013

### DISCUSSION REPORT NO. 2

TO: Board of Education  
FROM: Dr. Richard M. Sheehan, Superintendent  
SUBMITTED BY: Eva Rae Lueck, Chief Business and Financial Officer  
SUBJECT: **Governor's Budget Proposals for 2013-14**

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#### **State Revenues**

With the passage of Proposition 30 in November 2012, the greatest risk to the 2012-13 State Budget has been averted. The Budget was built on the assumption that the higher sales and income taxes would be approved by state voters. In addition, voters approved Proposition 39 which established a single sales tax for out-of-state corporations. Together, both measures are expected to generate \$5.8 billion in additional General Fund revenues in 2013-14, or 5.9% of the total estimated revenues.

The Governor's Budget indicates that revenues in the current year are \$493 million lower than previously forecasted, while revenues for 2013-14 are forecasted to be about \$2.4 billion higher, partly due to the passage of Proposition 39. It is important to note that, even with the higher taxes from the two voter-approved measures, General Fund revenues in 2013-14 are forecasted to be \$4.0 billion less than the previous high of \$102.6 billion in 2007-08, the year before the onset of the Great Recession.

The Governor's Budget projects General Fund revenues and transfers totaling \$98.5 billion in 2013-14, a 3.3% increase from the revised current-year level. Of this total, the personal income tax is expected to contribute almost \$62.0 billion, or about two-thirds of the total, followed by the sales and use tax at \$23.3 billion and the corporation tax at \$9.1 billion.

#### **Summary of Education Funding**

For 2013-14, the Budget projects that the Proposition 98 guarantee will grow to \$56.2 billion, a \$2.7 billion increase which comes from a combination of anticipated growth in base state revenues and a Proposition 98 share of the newly approved temporary tax increase. Some of the major K-12 Budget proposals include the following:

- \$1.8 billion to reduce inter-year apportionment deferrals in 2013-14, reducing the total outstanding deferral debt to \$5.6 billion. The Governor's Budget Proposal asserts that all of the remaining apportionment deferrals will be paid off by the end of 2016-17.

## GLENDALE UNIFIED SCHOOL DISTRICT

February 5, 2013

DISCUSSION REPORT NO. 2

Page 2

- \$1.6 billion in additional funding for school districts and charter schools to implement the proposed Local Control Funding Formula, which equates to an overall increase of 4.5%.
- \$400.5 million to support energy efficiency projects in schools consistent with Proposition 39, the recently enacted measure to impose a single sales tax on out-of-state corporations.
- \$100 million increase for the K-12 mandate block grant to fund the Science Graduation Requirement and the Behavioral Intervention Plan (BIP) mandates, two programs that were not included in the block grant in 2012-13.
- \$62.8 million to fund a 1.65% cost-of-living adjustment (COLA) for categorical programs that will remain outside of the Local Control Funding Formula: Special Education, Child Nutrition, American Indian Education Centers/Education Program.

### **Revenue Limits and Categorical Programs**

Revenue limits currently provide about two-thirds of school districts' revenues and the vast majority of general purpose funding. The bulk of the remaining funding for schools is provided through categorical programs.

In 2013-14, the Governor's Budget contains a proposal that would completely change the way revenue limit and categorical program funding (excluding federally required programs) is distributed to schools. Under the Governor's Proposal, these important funding categories would be consolidated into one revenue stream on a permanent basis. Funding from this new consolidated source would reportedly be distributed based upon a single weighted allocation formula called "Local Control Funding Formula" (LCFF) that takes into account the school's number of disadvantaged pupils. The weighted formula would be phased in over a seven-year period. It is important to note that many of the existing laws pertaining to funding education would need to be changed for the new formula to be implemented.

In the meantime, revenue limit is still how education will be funded until state law is changed. The impact of a 1.65% COLA to the District will be approximately \$88/ADA or \$2.2 million dollars. The 2013-14 revenue limit funding is \$5,310 per ADA after deficit, which is \$1,522 per ADA lower than the \$6,832 funding level before the 22.272% deficit is applied, equivalent to a \$38 million reduction in funding.

**Local Control Funding Formula (LCFF)**

The Governor's 2013-14 Budget brings back his school finance reform proposal from last year with a new name—now called the Local Control Funding Formula (LCFF) —and some refinements. Over time, the formula would replace revenue limits and most categorical program funding with base grants per pupil, plus supplemental funding provided via percentage "weights" for students that are not English language proficient, who are from low-income families, or who are in foster care. This proposal, if adopted, would replace the existing revenue limit funding system and more than 40 categorical programs. The Governor’s goal is to phase in the new formula over 7 years and be fully implemented by 2020-21. The formula can be summarized as follows:

- **Base Grant** - varies by grade level (K-3...4-6...7-8...9-12)

Factors	K-3	4-6	7-8	9-12
Grade Span Base Grant per ADA	\$6,342	\$6,437	\$6,628	\$7,680
Class Size Reduction & Career Tech. Education	\$710			\$215

- K-3 grants are increased by approximately \$710 in recognition of the benefit of lower class sizes at 24 to 1.

- **Per Student Supplemental Grant** - 35% of the base grant for each enrolled student who is an English learner, eligible for the Free and Reduced-Price Meals Program, or in foster care. **(The District’s current range of unduplicated count for these three groups is between 53% to 56%)**
- **Per Student Concentration Grant** – additional 35% would be provided for each eligible student enrolled that exceeds 50% of total enrollment. **(The District’s current range in excess of 50% for these three groups is between 3% to 6%)**

It would cost more than \$15 billion to fully fund LCFF in 2013-14 and the Governor is proposing to set aside approximately \$1.6 billion or 10% in 2013-14 to phase in this new formula. There are still many outstanding questions on how LCFF will impact Districts throughout the state as the mechanics of the formula has yet to be finalized at the state level. That said, District staff has been working with School Services of California to “guesstimate” the impact of the Governor’s 2020-21 LCFF goal and its impact to the District.

## GLENDALE UNIFIED SCHOOL DISTRICT

February 5, 2013

DISCUSSION REPORT NO. 2

Page 4

***If*** the Governor's goal of fully funding LCFF by 2020-21 materializes, it would be an increase of about \$65 million per year to the District. Again, this is a "guesstimate" and would be the best case scenario. Unfortunately, history has shown that the state has not been able to fully fund education, especially when there is an economic downturn.

As previously mentioned, there are many questions that still need to be addressed with the LCFF, especially on how the formula will be implemented during the 7 year phase-in period. In the meantime, the District will need to evaluate/redesign instructional programs as categorical dollars are being phased out. Additionally, the potential of new dollars during the 7 year phase-in period will need to be prioritized with respect to the elimination of the District's structural deficit, furlough days, restoration of eliminated programs, the rising costs of health care, routine restricted maintenance inflation, and salary increases.

### **Deferred Maintenance**

The Governor's Budget includes funding for the Deferred Maintenance program in the LCFF part of the base grant. Starting in 2013-14, Deferred Maintenance funds, as part of the LCFF, would be subject to flexibility and can be used for any educational purpose. The proposal permanently extends the flexibility so that LEAs will no longer be required to make the local match to receive the funds. LEAs will determine how to allocate the LCFF base grant funding to fulfill local educational priorities, including the needs of the Deferred Maintenance Program.

### **Routine Restricted Maintenance Account**

Starting in 2008-09, LEAs had the ability to reduce the amount deposited into a routine restricted maintenance account through 2014-15.

Under current law, the exemption allows a district to reduce its contribution from 3% of General Fund expenditures to 1%; however, if the school district maintains its facilities in good repair, as defined in Education Code Section 17002, it shall be exempt from this 1% requirement. The Governor's Budget would permanently eliminate the minimum contribution.

### **Conclusion**

There will be continuous discussions at the state level on the Governor's Budget Proposal between now and the actual budget adoption in June. While it may appear that funding is on the way back up, there are concerns at many levels. For one, the implementation of LCFF will eliminate other revenue streams that Districts currently receive outside of the revenue limit. One such example is the Unemployment Reimbursement, which for Glendale Unified will be a loss of annual revenue of \$1.5 million to \$2.2 million. Other concerns include the state must have sufficient funds to fully fund the Governor's target in 2020-21, and history tells us that this will be a long slow climb. Finally, it is important to remember that Proposition 30 tax measures are only temporary with sales tax ending in 2016 and personal income tax ending in 2018. Thus, the state has a short window to leverage these tax dollars to jump start and sustain the state's fiscal solvency.