

GLENDALE UNIFIED SCHOOL DISTRICT

February 4, 2014

DISCUSSION REPORT NO. 3

TO: Board of Education

FROM: Dr. Richard M. Sheehan, Superintendent

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SUBJECT: **Governor's 2014-15 January Budget Proposal**

State Revenues

The Governor's Budget Proposal reflects an overall economy that is slowly recovering from the "Great Recession". The Department of Finance points to falling unemployment rates, improving housing markets, and increased consumer demand of durable goods. At the national level, the gross domestic product is projected to pick up in 2014 to about 2.5% and increase to over 3% in 2015 and 2016.

The State has a significant improvement in the revenue outlook when compared to the assumptions in the 2013-14 Budget Act. As a result, the Governor reflects a 5.9% increase in revenues, equal to an additional \$5.9 billion above the revised current-year level. The Department of Finance has identified the strong performance of the stock market as the primary factor producing the unexpected new revenues for both the current year and 2014-15. However, rising gains from the stock market are very volatile from year to year and cannot be relied upon for consistent projections over time. Additionally, the Governor's Budget reflects downward revisions in the future tax collections from sales and corporate taxes resulting in even greater reliance on the income tax.

Summary of Education Funding

The improving economy has lifted the required minimum funding for K-14 education, increasing 2012-13 by \$1.8 billion and 2013-14 by \$1.5 billion. This two year increase is available for one-time spending, and the Governor proposes in 2014-15 to combine this revenue with \$2.7 billion from 2014-15 to completely retire the K-14 deferrals of \$6.1 billion one-time. For 2014-15, the Budget projects that the Proposition 98 guarantee will grow to \$61.6 billion, which is a \$6.3 billion increase above the 2013-14 level. Some of the major K-12 proposals include the following:

- \$5.5 billion to fully eliminate inter-year K-12 apportionment deferrals in 2014-15
- \$4.472 billion in additional funding for school districts to continue implementation of LCFF, which equates to an average increase of 10.9%

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- \$25.9 million to continue implementation of COE LCFF
- \$316.5 million to support energy efficiency projects in schools consistent with Proposition 39
- \$33.3 million to fund a 0.86% statutory COLA for the remaining categorical programs. COLAs for core discretionary funding are included in the LCFF target entitlement calculation.
- \$188.1 million for the Emergency Repair Program (one-time funds)
- \$46.5 million for student assessments

Local Control Funding Formula (LCFF) and Remaining Categorical Programs

As stated earlier, the Governor's 2014-15 Budget continues LCFF funding with \$4.5 billion of additional Proposition 98 revenues. The proposed increase will close the 2014-15 funding gap for each school district compared to 2013-14 level by approximately 28%, and results in an average increase of 10.9% or \$751 per ADA. Actual percentage and per-ADA increases for individual school districts will vary depending on the LEA gap between current funding and the full implementation target.

The LCFF provides funding to move all school districts toward a finance system that allocates similar amounts per ADA as base grants within four grade spans, and also provides additional percentage increases for Class Size Reduction, Career-Technical Education, and Supplemental /Concentration grants on behalf of students that are not English language proficient, low income families, students with disabilities, or are in foster care. As a result, LCFF funding total amounts between school districts of similar size may greatly differ due to differences between student language and income levels.

The estimated 2014-15 target Base, CSR, CTE, Supplemental and Concentration grant amounts are listed below:

- **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	\$7,012	\$7,117	\$7,328	\$8,491
Class Size Reduction & Career Tech. Education	\$729			\$221

- K-3 grants are increased by approximately \$729 in recognition of the benefit of lower class sizes at 24 to 1.

- **Per Student Supplemental Grant** - 20% 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 56% to 58%)**
- **Per Student Concentration Grant** – additional 50% would be provided for each eligible student enrolled that exceeds 55% of total enrollment. **(The District's current range in excess of 55% for these three groups is between 1% to 3%)**

For Glendale USD, the 2014-15 LCFF calculation results in increased funding of \$16.1 million or 9.75% when compared to 2013-14 revenue. This is a net change of \$639 per ADA and a total \$7,193 per ADA, reflecting a 0.86% COLA and 28% GAP.

Funding for most categorical programs was consolidated into the LCFF in 2013-14. State categorical programs outside the LCFF, including Special Education and Child Nutrition are provided with the 0.86% COLA in the Governor's Budget. The proposed budget does not include any additional funding in 2014-15 for the implementation of the Common Core State Standards.

Local Control Accountability Plan (LCAP)

The LCFF moves school districts away from a system of rule/audit compliance to a system of accountability based on local needs and measured by progress towards annual goals. The LCAP is the system on how school districts will be measured in meeting their goals. The Governor proposes no changes to existing requirements, including the requirement that LEA's adopt a three-year plan with annual updates beginning July 1, 2014.

The State Board of Education (SBE) has released a proposed LCAP template that categorizes the state priorities into three groups for planning purposes: Conditions of Learning; Pupil Outcomes; Engagement. The template is also comprised of three sections: Stakeholder Engagement; Goals & Progress Indicators; Actions/Services/Expenditures. School districts must also demonstrate in their LCAP that they have increased or improved services for unduplicated pupils in proportion to the increase in the funds apportioned to the supplemental and concentration grants.

Glendale USD started the LCAP development process by holding three community meetings for the public to explain at a general level the definitions of the LCFF and LCAP. The District is in the process of forming an LCAP Committee to gather information on educational issues the Superintendent and the Board of Education may want to consider during LCAP development. The LCAP Committee will include 2015 Strategic Plan members, school/parent representation, teachers, administrators, classified employees, community members, student representatives, and other stakeholders serving on current school site/district committees. LCAP Committee meetings are tentatively scheduled on for February 27, March 6, March 25, April 8, and April 21 (if needed).

The draft LCAP will be presented to the Board of Education on May 6 in a public hearing, with Board adoption of the LCAP following on May 20, 2014. The 2014-15 District Budget will be presented for adoption to the Board of Education on June 17, 2014.

State Mandate Reimbursements

The Governor's Budget Proposal contains no changes to the funding level of the Mandate Block Grant, and there are no changes proposed to the list of state mandates. The Budget continues the long-term plan to pay down the \$5.4 billion debt owed to school districts, community colleges, and local governments for prior mandates over several years, to be completed by the end of 2017-18. However, there were no funds included for this purpose in 2014-15, leaving the payoff for future years. The reason given for not funding this debt in 2014-15 was to give priority to eliminating the cash deferrals and paying down the Economic Recovery Bonds issued in 2004.

School Facilities Bond

The Governor moved away from the idea of introducing a 2014 facilities bond in his Budget Proposal by proposing to continue a dialogue on the future of school facilities funding, including consideration of what role, if any, the state should play in the future of school facilities funding. He proposes that any future facilities program be easy to understand and provide school districts appropriate local control and fiscal incentives.

Routine Restricted Maintenance Account

Starting in 2008-09, LEAs could reduce the amount deposited into a routine restricted maintenance account through 2014-15. Beginning in 2015-16 districts will again be required to contribute a minimum amount equal to or greater than 3% of the total General Fund expenditures. This will require the Glendale Unified School District to transfer an additional \$1.1 million from the General Fund to the Restricted Maintenance account in future years beginning in 2015-16.

California Clean Energy Jobs Act - Proposition 39

The California Clean Energy Jobs Act, approved by voters in 2012, can be used by school districts to undertake energy efficient measures by construction or modernization of energy efficient buildings, purchasing energy efficient equipment, and creating renewable energy projects. The Governor proposes to allocate \$363 million of energy efficiency funds in 2014-15 for school districts, community colleges, California Conservation Corp and the Workforce Investment Board.

California State Teachers' Retirement System (STRS)

The Governor's Budget Proposal notes that the STRS faces a growing unfunded liability of \$80.4 billion and may exhaust its assets within 30 years. Stabilizing STRS could cost more than \$4.5 billion, which would involve possibly increasing the employer/employee contribution or decreasing retiree payouts. Given STRS contribution rates are set in statute, it will take legislative action to change the contribution rates, and the Governor's Budget Proposal states that his administration will work with stakeholders on a plan of shared responsibility to achieve a fully funded system within 30 years. The STRS funding plan will be included in the future 2015-16 Budget Proposal, so school districts should be prepared for increases in the contribution rates starting in that year.

Conclusion

While the proposed State budget forecast appears promising, it is important to remember that the economy is about 4 years into a very slow recovery from the "Great Recession", and most historical recovery cycles only last about 5 years. Given LCFF is proposed to reach full funding in 8 years, an economic down turn, stock market swings, or shifting State budget priorities can put a strain on school funding during the implementation time line. Therefore it is prudent for Glendale USD to be conservative in multi-year fiscal planning.

To help with this economic uncertainty, the Governor proposes a constitutional amendment to strengthen the state's Rainy Day Fund. In 2004 voters approved Proposition 58 which required a balanced Budget and directed 3% of the state's revenues into a Rainy Day Fund. The Governor's proposed constitutional amendment would make deposits into the reserve account when capitalized gains are more than 6.5% of the State's General Fund revenues, and double the size of the reserve from 5% to 10% of state revenues. The proposal would also allow the state to make supplemental payments to reduce the State's "Wall of Debt" or other long-term liabilities. The proposal would additionally create a Proposition 98 reserve to help smooth out the revenues to prevent severe cuts caused by future economic swings. If approved by two-thirds of the Legislature, the proposal will be set on the November 2014 ballot.

The next steps for Glendale USD for the remainder of the 2013-14 fiscal year are as follows:

- Second Interim Budget Report
- Develop the Local Control Accountability Plan (LCAP)
- Allocation of Supplemental/Concentration Grant Funds To Programs
- Evaluate State May Revise Budget Impacts
- Board Adoption of District LCAP on May 20, 2014
- Board Adoption of 2014-15 District Budget on June 17, 2014