

February 16, 2012

# Restructuring the K-12 Funding System

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LEGISLATIVE ANALYST'S OFFICE

Presented to:  
Senate Budget and Fiscal Review Committee  
Hon. Mark Leno, Chair





## Consensus That System Needs Overhaul

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- Current State Funding System Consists of Revenue Limits and Categorical Programs.** Roughly 70 percent of Proposition 98 funding distributed via revenue limits (general purpose funds). Roughly 30 percent distributed via about 60 different categorical formulas. Categorical funding traditionally has been restricted for specific activities.
- Current K-12 Funding System Deeply Flawed.** Broad-based consensus among research community that system is deeply flawed. *Getting Down to Facts* studies and reports from the *Governor's Committee on Education Excellence*, both published in 2007, identify major problems with existing system.
- Existing K-12 Funding System Is:**

  - **Overly Complex.** Myriad formulas and requirements.
  - **Irrational.** Many formulas based on historical factors that no longer have relevance.
  - **Inequitable.** Does not treat similar districts similarly and is not well aligned to student needs.
  - **Inefficient.** Compliance-oriented rather than student-oriented.
  - **Highly Centralized.** Limits districts' ability to design educational programs based on local needs and priorities.



## Review of Recent Legislative Actions

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- Legislature Has Temporarily Removed Spending Requirements for About 40 State Categorical Programs.** Districts can use funding for any purpose. (Categorical spending requirements remain for roughly 20 programs.)
- LAO District Survey Suggests Flexibility Has Changed the Ways Districts Spend Monies.** Districts either are diverting funding away from many flexed categorical programs or discontinuing them altogether.
- Funds Still Distributed Based on Historical Allocation Patterns.** Funding amounts generally “locked in” as of 2008-09, without accounting for changes in underlying student populations since that time.
- Flexibility Authorized for Three More Years.** Under current law, old categorical formulas and requirements would resume beginning 2015-16.
- To Help Districts Accommodate Budget Reductions, Legislature Also Loosened Several Other Requirements.** These include reducing fiscal penalties for increasing K-3 class sizes, allowing districts to offer fewer instructional days, postponing required instructional materials purchases, reducing routine maintenance requirements, and eliminating required deferred maintenance set-asides.



## Overview of Governor's Proposal

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- Expands Current Flexibility by Eliminating Seven Remaining Categorical Programs (\$2.8 Billion).***

  - Includes about \$500 million associated with restoring Home-to-School Transportation program funding for 2012-13 *only*.
  
- Replaces Existing System With Weighted Student Formula.***  
 Would combine current revenue limit and categorical funds and distribute via new formula. New formula also would apply to charter schools but not to county offices of education.

  - Equal base grant for every student (\$4,920 in 2012-13).
  - Additional “weight” of 37 percent (\$1,820 in 2012-13) for every English Learner (EL) and economically disadvantaged student, as measured by participation in Free and Reduced Price Meals (FRPM) program.
  - Additional “concentration” funding for districts with large proportions of EL and FRPM students.
  
- Phases in Formula Over Six Years.***

  - ***2012-13:*** Districts would receive 95 percent of funding based on what they got in 2011-12 and 5 percent based on the new formula. If this results in a drop in per-pupil funding for a district, the district would receive additional funding to maintain its current-year per-pupil rate.
  - ***2013-14:*** 15 percent of funding distributed based on the new formula, and no hold harmless provision.
  - ***2014-15 Through 2017-18:*** 40 percent via new formula in 2014-15, then an additional 20 percent each year until full implementation in 2017-18.
  
- Implements New Accountability Measures Beginning in 2013-14.*** Would provide fiscal bonuses to districts that meet new accountability metrics being developed by the State Board of Education.



## Governor Would Eliminate Several Remaining Categorical Programs

<b>How Existing Categorical Programs Are Treated Under Governor's Proposal</b>	
<b>Programs That Would Merge Into Weighted Student Formula</b>	
<b>Currently Flexible (\$4.7 Billion)</b>	
Adult education	Oral health assessments
Advanced placement grant programs	Peer Assistance and Review
Alternative credentialing/internship program	Physical Education Block Grant
Arts and Music Block Grant	Principal training
Bilingual teacher training assistance program	Professional Development Block Grant
California High School Exit Exam supplemental instruction	Professional development for math and English
California School Age Families	Pupil Retention Block Grant
California Technology Assistance Projects	Reader services for blind teachers
Certificated Staff Mentoring	Regional Occupational Centers and Programs
Charter Schools Categorical Block Grant	School and Library Improvement Block Grant
Civic Education	School Safety Block Grant
Community Based English Tutoring	School Safety Competitive Grant
Community Day School (extra hours)	Specialized secondary program grants
Deferred maintenance	Student leadership
Gifted and Talented Education	Summer school programs
Grade 7-12 counseling	Targeted Instructional Improvement Block Grant
Instructional Materials Block Grant	Teacher Credentialing Block Grant
National Board certification incentive grants	Teacher dismissal apportionment
Ninth-Grade Class Size Reduction	
<b>Newly Flexible as of 2012-13 (\$2.8 Billion)</b>	
Adults in correctional facilities	Home-to-School Transportation (only funded in 2012-13)
Agricultural vocational education	K-3 Class Size Reduction
Apprentice programs	Partnership Academies
Economic Impact Aid	
<b>Programs That Would Remain Restricted</b>	
After School Education and Safety Program	County Office fiscal oversight
American Indian Early Education Programs <sup>a</sup>	County Office oversight ( <i>Williams</i> lawsuit) <sup>a</sup>
American Indian Education Centers <sup>a</sup>	Foster youth programs (county-run)
Assessments	K-12 Internet Access
Charter school facility grants	Special education
Child nutrition	State Preschool
Community Day School	Quality Education Investment Act
<sup>a</sup> These programs currently are subject to limited-term flexibility, but the Governor's proposal would reinstate categorical restrictions.	



## LAO Assessment of Governor's Proposal

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### ***Governor's Restructuring Proposal Has Several Strong Components.***

- Implements system that is simple, transparent, and rational.
- Provides additional funding for districts to serve needy students.
- Provides immediate increase in local flexibility to focus on local priorities.
- Offers reasonable phase-in period.
- Accomplishes restructuring within existing resources.



### ***Devolving Virtually All Decision Making to Local Level Has Some Drawbacks.***

- Important state priorities may not be accomplished.
- Does not ensure additional funding will translate to additional services for disadvantaged students.
- Overestimates power of existing accountability system.



## Recommend Adopting Modified Version of Governor's Proposal

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- Governor's Proposal Moves in the Right Direction.***  
Recommend adopting some version of his proposed changes, with modifications to ensure legislative priorities are met.
  
- Recommend Maintaining Spending Requirements for Disadvantaged Students.*** Until state has more robust accountability system, require that districts spend supplemental "weighted" portion of allocation to provide supplemental services to disadvantaged students.
  
- Legislature Could Further Modify Proposal to Preserve Other Important Priorities.*** Options include:
  - Different weights for disadvantaged students.
  - Additional weighting factors.
  - Extending timeline for phasing in new formula.
  - Block grant approach (in lieu of weighted student formula).



## Consider Additional Ways to Help Districts Weather Budget Uncertainty

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- ☑ ***Districts Grappling With Revenue Uncertainty and Possibility of Midyear Trigger Cuts.*** Districts must have a back-up plan if November election does not result in additional state revenues.
  
- ☑ ***Recommend Legislature Provide Districts With More Flexibility.*** Regardless of whether Legislature adopts Governor's plan to restructure K-12 funding, additional flexibility would help districts. Options include:
  - Removing categorical and mandate requirements (beyond current law).
  - Allowing for a shorter school year.
  - Eliminating or suspending penalties for districts that exceed maximum statutory class sizes.
  - Allowing for a special post-election layoff window.
  
- ☑ ***Recommend Any Additional Flexibility Provisions Take Effect July 1.*** Providing additional tools early would give districts more options in making programmatic reductions. A fuller menu of options could reduce the magnitude of teacher layoffs this spring by allowing districts to achieve other types of operational savings.