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Local Control Funding Formula

LEGISLATIVE ANALYST'S OFFICE

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Senate Budget and Fiscal Review
 Subcommittee No. 1 on Education
Hon. Anthony J. Portantino, Chair





Local Control Funding Formula (LCFF) for School Districts and Charter Schools



State Implemented Formula in 2013-14

- LCFF replaced the state’s previous system of school finance, which consisted of general purpose grants known as revenue limits and many categorical programs.



Formula Has Several Components

- Sets base per-student funding rates for four grade spans, with generally higher rates for higher grades.
- Adds a supplement of 20 percent of the base grant for each English learner and low-income (EL/LI) student.
- Also adds 50 percent of the base grant for each EL/LI student above the EL/LI concentration threshold (55 percent of district enrollment).

Local Control Funding Formula Per-Student Rates			
<i>Effective 2017-18 School District and Charter School Rates Under Governor’s Budget</i>			
Grade Span	Base	Supplemental	Concentration
K-3	\$7,626	\$1,525	\$3,813
4-6	7,011	1,402	3,505
7-8	7,220	1,444	3,610
9-12	8,583	1,717	4,291

- School districts and charter schools may use LCFF funding for any education-related purpose.

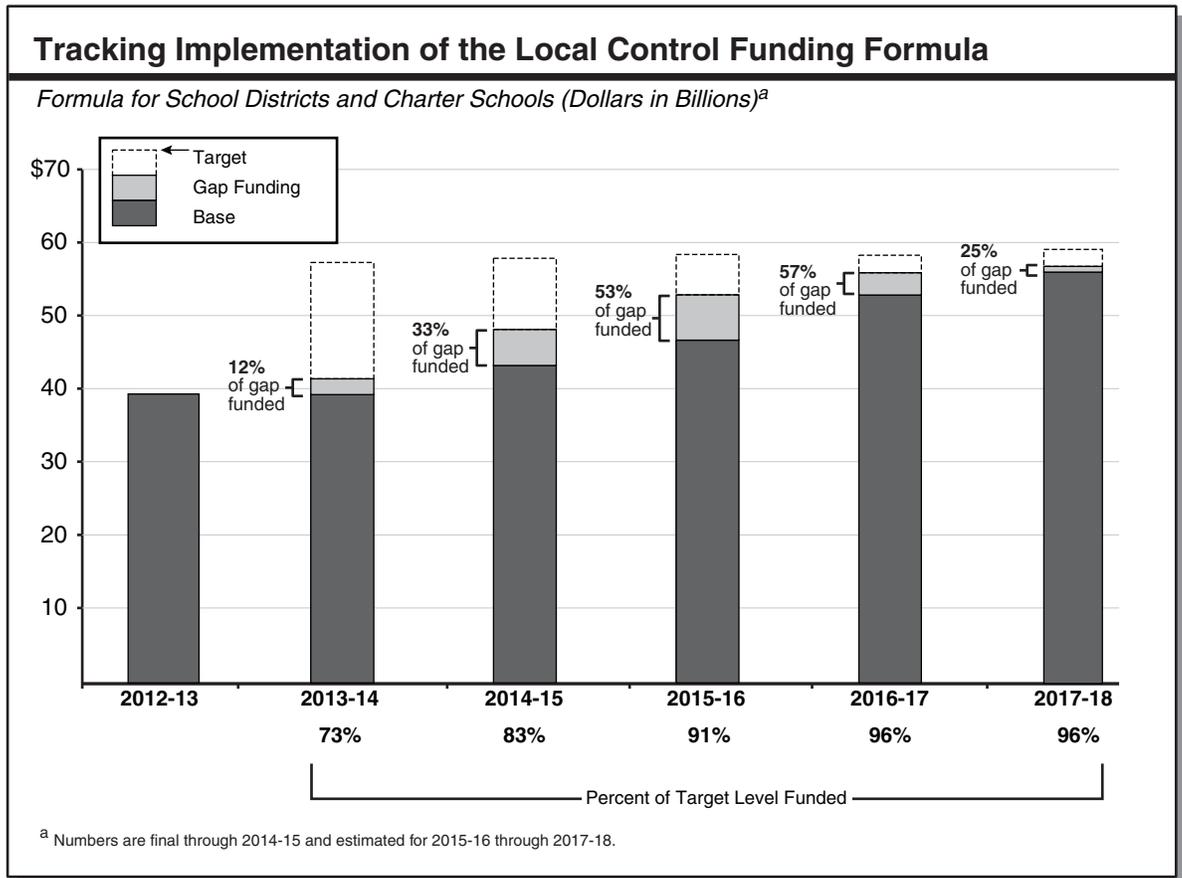


LCFF Implementation



Target LCFF Rates Higher Than Funding Rates Under Former System

- When first enacted in 2013-14, LCFF was estimated to cost \$18 billion more than the previous funding system.
- The state is phasing in LCFF implementation over multiple years as additional funding becomes available. The administration expects to fully fund LCFF starting in 2020-21.
- Over the past four years, the state has provided \$15.7 billion in additional K-12 funds for LCFF implementation. The Governor's budget for 2017-18 proposes an additional \$744 million.





Proposed LCFF Deferral

- Governor Estimates Lower Minimum Guarantees for 2015-16 and 2016-17**

 - Relative to June 2016 budget estimates, the Governor's January budget estimates the 2015-16 Proposition 98 minimum guarantee has fallen \$379 million and the 2016-17 guarantee has fallen \$506 million.
 - Governor proposes reducing Proposition 98 spending in these years to align with the revised estimates of the minimum guarantees.
 - From an accounting perspective, the Governor proposes shifting \$324 million in one-time spending from 2015-16 to 2016-17. Coupled with the drop in the 2016-17 guarantee, Governor identifies an \$859 million problem in 2016-17.

- Governor Proposes Deferring an LCFF Payment From 2016-17 to 2017-18**

 - By deferring an LCFF payment (\$859 million) from June to July 2017, the Governor would reduce K-12 spending in 2016-17 without making midyear cuts.

- Governor Proposes to Retire Deferral in 2017-18**

 - By immediately retiring the deferral, the Governor gets LCFF payments back on track but leaves less Proposition 98 funding for other purposes in 2017-18.

- Recommend Exhausting Other One-Time Options Before Deferring LCFF Payment**

 - Legislature has some other options for reducing spending scored to 2016-17. In particular, we anticipate some prior- and current-year funds allocated to State Preschool and other programs will not be spent and could be repurposed.



LCFF for County Offices of Education (COEs)



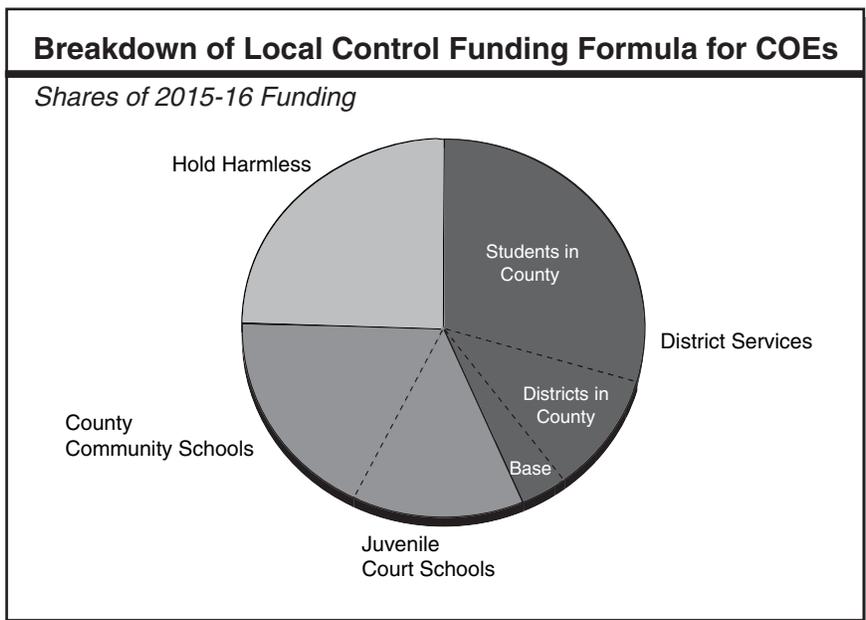
State Implemented Formula in 2013-14

- LCFF replaced the state’s previous system of school finance, which consisted of general purpose grants and many categorical programs.



Formula Has Several Components

- District services part of formula tied to the number of districts and students in the county.
- Alternative education part of formula tied to the number of students enrolled in juvenile court schools and county community schools.
- “Hold harmless” part of formula tied to amount of categorical funding COEs received prior to LCFF.
- COEs may spend LCFF funding for any education-related purpose.





LCFF Implementation



State Has Fully Funded COE LCFF Since 2014-15

- In 2013-14, state provided \$35 million in additional ongoing COE funding as part of phasing in the new formula. In 2014-15, state provided an additional \$13 million and reached the LCFF targets for all COEs.
- State has funded a cost-of-living adjustment (COLA) for the formula each year since 2014-15 (though the statutory COLA in 2016-17 was 0 percent).
- The 2017-18 budget provides \$1 billion in total LCFF funding to COEs.



LAO Findings and Recommendations



Almost Two-Thirds of COEs Receive Hold Harmless Funding

- Fifteen COEs are more than 150 percent over their LCFF targets.
- Four COEs are more than 200 percent over their LCFF targets.



Required Activities Cost Much Less Than LCFF Provides

- After paying for alternative education and required district fiscal and academic oversight activities, COEs spend the rest of their LCFF allocations (roughly \$650 million) on activities they are not required to perform by law and that have no state accountability requirements.



Recommend Funding COEs Directly for Fiscal and Academic Oversight

- Compared to a state-level entity, COEs tend to be more familiar with local circumstances and are better positioned to provide oversight.



Recommend Shifting Majority of COE LCFF Funds to Schools Districts

- Would allow districts to purchase services that best serve their students, whether from COEs or other providers.
- Recommend phasing in the new funding model over the course of the next few years.



School Pension Costs



School Pension Costs Are on the Rise

- The state approved a plan in 2014-15 to address the unfunded liability in the retirement system for teachers (CalSTRS). Under the plan, schools' contribution rates increase each year from 2014-15 through 2020-21.
- The governing board of CalPERS, which administers pensions for classified school employees, also has taken action to address its unfunded liability. School contribution rates are expected to rise each year until the mid-2020s.



Recent Increases in School Funding Have Outpaced Growth in Pension Costs

- School pension contributions are estimated to increase about \$3 billion from 2014-15 through 2017-18. LCFF is estimated to increase about \$14 billion over this period.

