

K THRU 12 EDUCATION

California provides compulsory instruction and support services to roughly six million students in grades kindergarten through twelve in more than 10,000 schools throughout the state. Through a system of 58 county offices of education and more than 1,000 local school districts and charter schools, students are provided with instruction in English, mathematics, history, science, and other core competencies to provide them with the skills they will need upon graduation for either entry into the workforce or higher education.

INVESTING IN EDUCATION

The Budget includes Proposition 98 funding of \$56.2 billion for 2013-14, an increase of \$2.7 billion over revised funding levels for the 2012-13 year. With the passage of Proposition 30, the Schools and Local Public Safety Protection Act of 2012, schools have been spared billions of dollars of mid-year trigger reductions. Building off the stabilized funding base for 2012-13, the Budget proposes investments for 2013-14 that will significantly reduce late payments to schools and target substantial additional funding to schools and students in most need of these resources.

During the economic downturn, the state deferred payments to schools, therefore, schools received approximately 20 percent of their funds a year after they spent them. Some school districts were able to borrow to manage these deferrals, while others had to implement deferrals as cuts. Districts that were able to borrow incurred substantial interest costs, which led to dollars taken out of the classroom. The Budget proposes repayment of approximately \$1.8 billion in deferred payments to fund programs and

increase budget transparency. This investment will provide additional certainty of funding for expected levels of programs and services, while also reducing the substantial borrowing costs borne by schools as result of the deferrals.

In addition to revenues provided by Proposition 30, schools and community colleges also benefit from the passage of Proposition 39, the California Clean Energy Jobs Act. For 2013-14, Proposition 39 will result in a \$526 million increase in the Proposition 98 guarantee level. The Budget proposes to transfer \$450 million of the revenues generated in 2013-14 into a special fund for energy efficiency projects in schools and community colleges, consistent with the provisions of Proposition 39. The expenditures from this special fund for energy efficiency projects will also count towards meeting funding obligations for schools and community colleges under Proposition 98.

Since reaching an all-time high of \$56.6 billion in 2007-08, Proposition 98 funding for K-14 education slipped to \$47.3 billion for the 2011-12 year. In recognition of the key role schools play in promoting equal opportunity for Californians, supporting civic engagement and critical thinking, the Budget reverses this almost half-decade decline in funding for education programs. It gives schools resources to fund base programs and services, stabilize and expand their teaching and support personnel, and renew investments in facilities, instructional materials and other education infrastructure. While increasing funding for districts, it makes targeted investments in districts serving students with the greatest level of needs—recognizing that this approach will help the state reduce disparities, maximize student achievement, and strengthening the foundation for sustainable growth.

RESTORING LOCAL CONTROL AND MAKING NEEDS-BASED INVESTMENTS

California's school finance system, which provides funding for school districts, county offices of education, and charter schools, has become overly complex, administratively costly, and inequitably distributed. In many ways, the current system of school finance is a relic of the past, where program allocations have been frozen and are no longer reflective of changing student needs. There are many different funding streams, each with their own allocation formula and spending restrictions. It is state-driven and interferes with local officials deciding how best to meet the needs of students. Further, scholarly research and practical experience indicate that low-income students and English language learners come to school with unique challenges and often require supplemental

instruction and other support services to be successful in school. Additionally, the current school finance system provides few incentives for school districts to offer innovative educational programs that increase student success.

The Budget proposes new funding formulas for both schools and county offices of education. The proposal will increase local control, reduce state bureaucracy, and ensure that student needs drive the allocation of resources. The new funding formulas will also greatly increase transparency in school funding, empowering parents and local communities to access information in a more user-friendly manner and enhance their ability to engage in local school financial matters. The goal is to ensure sufficient flexibility and accountability at the local level so those closest to the students can make the decisions.

SCHOOL DISTRICT AND COUNTY OFFICE OF EDUCATION FINANCE

The Budget proposes a new Local Control Funding Formula that distributes combined resources to schools through a base revenue limit funding grant (base grant) per unit of average daily attendance (ADA) with additional supplemental funding allocated to local educational agencies based on their proportion of English language learner and free and reduced-price meal eligible students. The proposed formula entitles every school district to a base grant adjusted for grade span cost differentials, multiplied by ADA. The average base grant when fully implemented will be equal to the current average undeficitated school district revenue limit. A K-3 grade span adjustment is provided to ensure that current K-3 Class Size Reduction program funding is targeted to students in those grades. Base funding will be used by each locality at their discretion to fulfill local educational priorities. Under the new formula, basic aid districts would be defined as districts whose local property taxes equal or exceed their district's formula allocation. Those districts would continue to retain local property taxes in excess of their new formula allocation.

The proposed formula provides supplemental funding to districts based on the proportion of English language learners and free and reduced-price meal eligible students they serve. Supplemental funding is equal to 35 percent of the base grant. When the proportion of English language learners and economically disadvantaged students exceeds 50 percent of its total student population, the school district will receive an additional concentration grant equal to 35 percent of the base grant for each English language learner and economically disadvantaged student above the 50-percent threshold. Under the formula, charter schools are essentially treated the same as a district, except they cannot receive a higher concentration grant than the school district in which it resides. The supplemental

and concentration grants are available for any purpose that benefits the students generating the funding.

While most categorical program funding is redistributed through the new funding formula, the Targeted Instructional Improvement Grant program and Home-to-School Transportation program funding allocations will be distributed as permanent add-on programs to the new funding formula allocations for each district. Schools will be provided with discretion to use these funds for any purpose.

This proposal builds on last year's budget proposal and reflects input from stakeholder groups and the Legislature. The Department of Finance, in collaboration with the State Board of Education and the Department of Education, convened three stakeholder meetings to discuss the concept of a new funding formula and obtain feedback from various education stakeholders. These discussions were guided by six key principles, which are: (1) creating a funding mechanism that is equitable, easy to understand, and focused on the needs of students, (2) implementing the formula in concert with funding increases for K-12 education, (3) phasing in the formula over several years, (4) paying schools back for deferrals and forgone cost-of-living adjustments through restoration of the deficit factor, and funding annual cost-of-living adjustments going forward, (5) allowing schools maximum flexibility in allocating resources to meet local needs, and (6) holding schools accountable for academic and fiscal outcomes. The key changes to last year's proposal include the following:

- Allocating half of the available Proposition 98 growth funding to move local educational agencies towards their respective formula allocation.
- Increasing the supplemental grant and reducing the concentration grant weights.
- Folding current career technical education funding into a 9-12 grade span adjustment.
- Authorizing local educational agencies to receive supplemental and concentration grant funding for an English language learner student for no more than five years.
- Linking funding in the K-3 grade span adjustment to maximum class sizes. A student-to-teacher ratio of 24 to 1 is established as the maximum standard in grades K-3 upon full implementation of the new formula. This ratio may be exceeded if agreed to at the local level according to local priorities.

The Budget proposes a new two-part funding formula for county offices of education that will provide (1) per-ADA funding to support instruction of students who attend community

schools and juvenile court schools, and (2) unrestricted funding for general county office operations, distributed based on the total number of school districts in the county and the total ADA of all students in the county. Under the new formula, county offices of education will receive a base grant per-ADA for students served in alternative schools that acknowledges the higher cost of education in these settings, while also providing the same targeted supplemental grants for English language learner and low income students as proposed in the school district formula.

ACCOUNTABILITY

The Budget proposes to focus accountability on the core requirements and outcomes expected of schools and to better integrate accountability with the local school district budget process. The new system moves away from expenditure requirements and other input-based measures. The Budget requires that all school districts produce and adopt a District Plan for Student Achievement concurrent and aligned with each district's annual budget and spending plan. While school districts have some discretion regarding the content of the plan, all plans are required to address how districts will use state funding received through the new funding formula toward improvement in the following categories:

- Basic conditions for student achievement (having qualified teachers at each school site, sufficient instructional materials available for students, and school facilities in good repair).
- Programs or instruction that benefit low-income students and English language learners.
- Implementation of Common Core content standards and progress toward college and career readiness (as measured by the Academic Performance Index, graduation rates, and completion of college-preparatory and career technical education courses).

The Budget eliminates most programmatic and compliance requirements that school districts, county offices of education, and charter schools are currently subject to under the existing system of school finance. Important requirements that remain in place include federal accountability requirements, as well as fiscal and budgetary controls and academic performance requirements.

FLEXIBILITY

A variety of temporary program and funding flexibility options, which have been provided to local schools since 2008-09, are set to expire over the next two fiscal years.

Consistent with the Administration's policy of having those closest to the students make the decisions, the Budget proposes the following permanent changes:

- Routine Maintenance Contributions—Eliminate the minimum contribution requirement for routine maintenance.
- Deferred Maintenance Program Matching Requirement—Eliminate the required local district set-aside for deferred maintenance contributions.
- Surplus Property—Allow districts to use the proceeds from the sale of any real and personal surplus property for any one-time general fund purposes.

As schools transition to a new funding formula and as funding grows, it is important to consider other flexibilities currently granted to schools. These include the ability of schools to reduce the school year by up to five days or the equivalent number of minutes without incurring penalties, and the ability of schools to reduce their budget reserves to significantly lower levels. The Administration will engage local school officials and education stakeholders in a discussion of the need for additional flexibility until funding returns to the 2007-08 level.

OTHER PROGRAM REFORMS AND INVESTMENTS

In addition to proposing reforms of school district and county office of education funding, the Administration proposes additional changes and investments in the areas of charter schools, special education, K-12 mandates, technology-based instruction, and adult education.

CHARTER SCHOOLS

Charter schools emerged in the early 1990's as an alternative to traditional public schools, providing opportunities for both parents and teachers to establish public schools that are free from most of the requirements of the Education Code. This freedom is intended to provide charter schools maximum flexibility to foster innovation and allow alternative approaches to education in local public schools. Instead of being governed by state law, charter schools are required to comply with the provisions of their local charter petition, as approved by their local school district, county office of education, or the State Board of Education.

Although the number of charter schools has grown to almost 1,000 statewide, there are a number of financial and operational challenges facing charter schools that limit

their potential effectiveness as alternatives to traditional public schools. In financial terms, charter schools receive significantly less funding on a per-student basis than traditional schools. They also face challenges in being able to secure necessary facilities for instruction. Compounding these problems is a labyrinth of control agencies that charter schools must deal with to secure funding for a variety of different programs. To remedy these issues, the Budget proposes the following:

- Shifting the Charter School Facility Grant Program and the Charter School Revolving Loan Program from the Department of Education to the California School Finance Authority to improve the efficiency of charter school program administration and disbursement of funds to local charter schools. The Authority already administers similar programs.
- Modifying the funding determination process for non-classroom based charter schools by limiting it to the first and third years of operation in most instances. Charter schools that are found to be out of compliance with minimum standards and applicable laws will be required to comply with annual funding determinations.
- Expanding the Charter Schools Facility Grant Program to include eligibility for non-classroom based charter schools, as these schools still have facility needs for instructional support.
- Extending for five additional years the 2012-13 requirement that school districts with identified surplus property and facilities first offer to sell those resources to charter schools before selling them to other entities or disposing of those assets.

SPECIAL EDUCATION FINANCE

The special education funding formula, created in Chapter 854, Statutes of 1997 (AB 602), has become unnecessarily complicated over time with certain formula components creating funding inequities among special education local plan areas. Also, a number of program add-ons created over the years have resulted in both inefficiencies and a lack of flexibility at the local level. To address these issues, the Budget proposes the following:

- Eliminating the integration of federal funds in the state's AB 602 calculation and treating both funding streams separately to remove unnecessary complications in the formula and help equalize funding among special education local plan areas.

- Consolidating funding for several special education program add-ons into the base AB 602 formula calculation, while collapsing another 15 special education add-on programs into 10 based on similar activities.

The changes proposed for special education finance will not affect funding set aside for the realignment of mental health services for special education students implemented last year—\$357 million in Proposition 98 General Fund and an additional \$69 million in federal funds will be dedicated for this purpose.

K-12 MANDATES BLOCK GRANT

The Budget Act of 2012 created an alternative method for school and community college districts to receive compensation for performing state-mandated activities by appropriating \$200 million for two new block grants—one for school districts, county offices of education, and charter schools; and one for community college districts. To date, almost 77 percent of school districts and charter schools have opted for block grant funding, while 93 percent of community college districts have selected this option. The block grant statutes specify which mandates are funded through the block grants, and schools are provided with a per-student funding allocation to support the performance of those activities. Schools that choose to receive block grant funding may not submit reimbursement claims. However, two K-12 mandated programs were not included in the K-12 block grant last year; the Graduation Requirements and Behavioral Intervention Plan programs. The Administration proposes to restructure requirements for the Behavioral Intervention Plan program, which will eliminate almost all reimbursable costs for this mandate. There are no changes proposed for the Graduation Requirements program, and the Administration continues to believe that any costs associated with this activity have run their course in the almost 30 years since the inception of this requirement. Nonetheless, the Budget proposes adding an additional \$100 million to the K-12 block grant to fund costs for these two additional programs.

TECHNOLOGY-BASED INSTRUCTION

School districts are limited in their ability to offer instruction in venues other than traditional classroom-based settings. The primary alternative instructional methods available to school districts are through the use of non-classroom based independent study and synchronous online education courses. Independent study programs, while providing freedom from the traditional classroom-based setting, still mandate the same pupil-to-teacher ratios as regular classroom instruction and focus heavily on process compliance with independent study agreements, which are contracts with students that govern the goals and expectations for this type of instruction. Synchronous online

courses are internet-based instructional courses, which provide an additional level of flexibility, but are limited by the requirement that these classes can only be offered under the immediate online supervision of a teacher.

To remove impediments to greater instructional flexibility, the Budget proposes statutory changes that will enable school districts to offer asynchronous online courses through a streamlined and outcome-focused independent study agreement. Asynchronous instruction does not require the simultaneous participation of all students and instructors, thereby increasing flexibility in the delivery of instruction. To hold these types of courses accountable, a refined independent study contract focused on specific measurable student outcomes, and teacher validation of those outcomes, will be used as the basis for whether schools receive funding for offering these courses. Under such a revised contract, schools will be held accountable for student achievement, rather than process requirements.

ADULT EDUCATION AND APPRENTICESHIP REALIGNMENT

Currently, K-12 school districts and community colleges are authorized to provide adult education instruction. However, there is no statewide requirement or mechanism to coordinate the efforts of these two systems. As a result, the state has an inefficient and redundant system that is not always structured in the best interest of adult learners. Further, funding for the K-12 adult education program is currently flexible, available for any educational purpose, and many districts are eliminating their programs and redirecting this funding to support their core instructional programs.

To create a more accountable and centralized adult education learning structure, the Budget proposes \$315.7 million Proposition 98 General Fund to fund a comparable K-12 adult education service delivery system. It proposes an increase of \$300 million to support the program within the community colleges. It also shifts \$15.7 million for the Apprenticeship Program. The proposal eliminates the current bifurcated system and places the community colleges in a position to improve coordination at the regional and statewide levels. Community colleges are better positioned than K-12 schools to address the needs of adult learners because that is their core function. Funding will be allocated from a new adult education block grant based on the number of students served, and the colleges will be encouraged to leverage the capacity and expertise currently available at the K-12 district adult schools. Additional detail on this proposal is discussed in the Higher Education Chapter.

ENERGY EFFICIENCY INVESTMENTS

K-12 school facilities represent the single largest capital outlay investment made by the state since the mid-1990's. From 1998 to present, the state has invested more than \$30 billion in school bond funding to modernize and construct school facilities. School districts and community colleges are well positioned to undertake projects that reduce their current utility requirements and expand the use of renewable energy resources. As a result, to make a substantial energy efficiency imprint throughout the state, the Budget proposes to allocate all Proposition 39 funding to schools and community colleges. Proposition 39 will provide \$450 million in 2013-14 to support these investments in schools and community colleges, and \$550 million in each of the next four years. The reduction in utility costs will in turn assist schools and community colleges in recovering from budgetary reductions implemented over the past five years.

The Department of Education and the Chancellor's Office for the California Community Colleges will be responsible for distributing funding, and may consult with both the California Energy Commission and the Public Utilities Commission to develop guidelines for prioritizing the use of the funds. These guidelines will reflect the state's energy "loading order", which guides the state's energy policies and decisions according to the following order of priority: (1) decreasing electricity demand by increasing energy efficiency, (2) responding to energy demand by reducing energy usage during peak hours, (3) meeting new energy generation needs with renewable resources, and (4) meeting new energy generation needs with clean fossil-fueled generation. Schools and community colleges will be able to use Proposition 39 funding consistent with the state's loading order policies and guidance to undertake energy efficiency measures including, but not limited to, the construction or modernization of buildings in a manner that uses less energy, purchasing energy efficient equipment, as well as undertaking renewable energy projects like installation of solar panels and geothermal heat pumps.

Local schools and community colleges may use Proposition 39 funds for technical assistance to help identify, evaluate, and implement appropriate projects. Schools and community colleges will also be encouraged to partner on their energy efficiency projects with the California Conservation Corps' Energy Corps program and participating community conservation corps programs, which provide career technical education and on-the-job work experience in the energy efficiency and renewable energy industry sectors. Upon project completion, schools and community colleges will report their project expenditure information to the Department of Education and the Chancellor's Office, respectively. The Administration will work with the Department of Education,

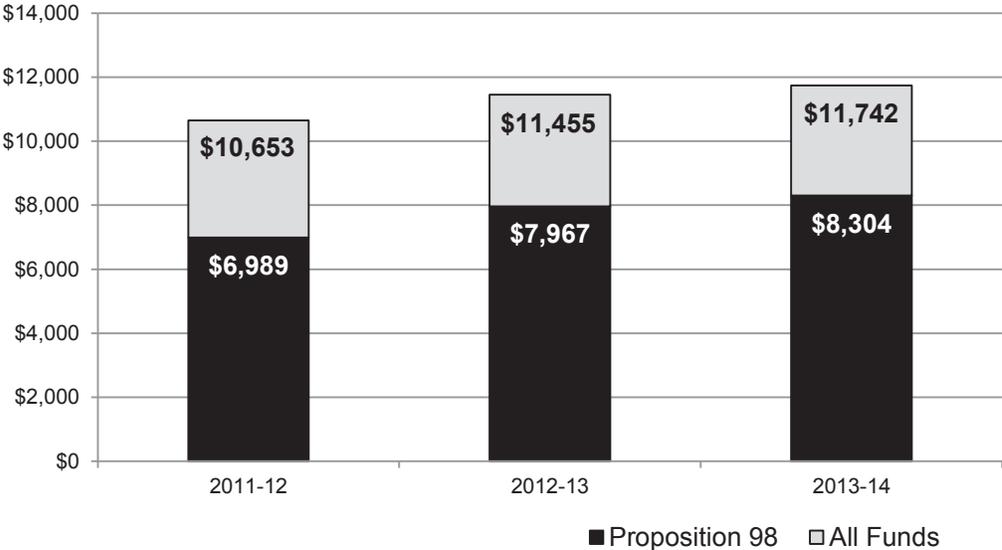
the Chancellor’s Office and the Citizens Oversight Board to ensure these funds are used by schools and community colleges in a manner that is consistent with Proposition 39.

K-12 SCHOOL SPENDING AND ATTENDANCE

PER-PUPIL SPENDING

Total per-pupil expenditures from all sources are projected to be \$11,455 in 2012-13 and \$11,742 in 2013-14, including funds provided for prior year settle-up obligations. Ongoing K-12 Proposition 98 per-pupil expenditures in the Budget are \$8,304 in 2013-14, up significantly from the \$7,967 per-pupil provided in 2012-13. (See Figure K12-01). Figure K12-02 displays the revenue sources for schools.

Figure K12-01
K-12 Education Spending Per Pupil



HOW SCHOOLS SPEND THEIR MONEY

Figure K12-03 displays 2010-11 expenditures reported by schools from their general funds, the various categories of expenditure and the share of total funding for each category.

ATTENDANCE

After a period of declining attendance from 2005 to 2010, attendance in public schools began increasing gradually in

Figure K12-02
Sources of Revenue for California's K-12 Schools
(As a Percent of Total)

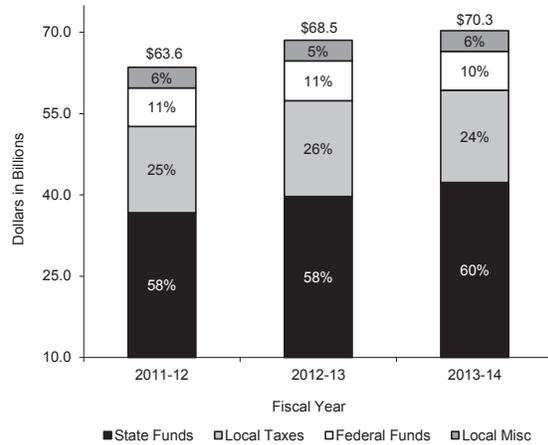
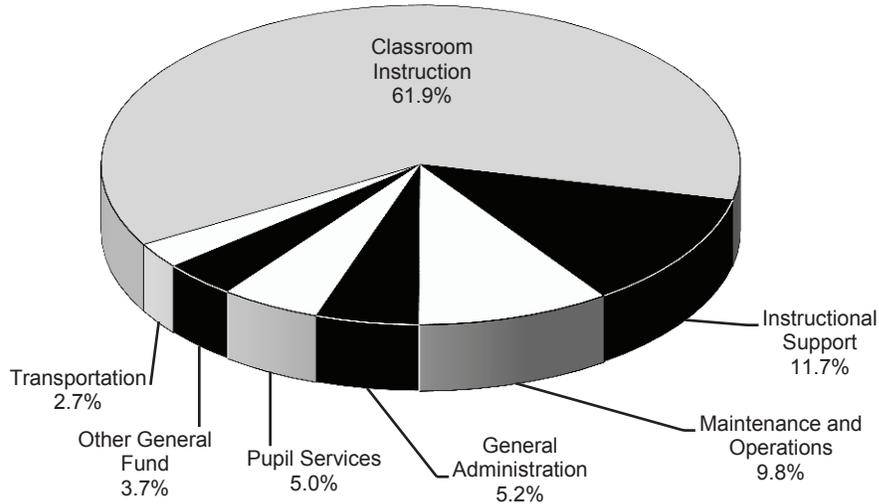


Figure K12-03
Where Schools Spend Their Money¹



Classroom Instruction includes general education, special education, teacher compensation, and special projects. General Administration includes superintendent and board, district and other administration and centralized electronic data processing. Instructional Support includes research, curriculum development and staff development that benefits and supports student instruction. Maintenance and Operations includes utilities, janitorial and groundskeeping staff, and routine repair and maintenance. Pupil Services includes counselors, school psychologists, nurses, child welfare, and attendance staff. Other General Fund includes spending for ancillary services, contracts with other agencies, and transfers to and from other district funds.

¹ Based on 2010-11 expenditure data reported by schools for their general purpose funding.

the 2010-11 fiscal year. Public school attendance is projected to continue increasing during the 2012-13 and 2013-14 fiscal years. For 2012-13, K-12 ADA is estimated to be 5,982,430, an increase of 16,090 from the 2011-12 fiscal year. For 2013-14, the Budget estimates that K-12 ADA will increase by an additional 5,967 to 5,988,397.

PROPOSITION 98 GUARANTEE

A voter-approved constitutional amendment, Proposition 98 guarantees minimum funding levels for K-12 schools and community colleges. The guarantee, which went into effect in the 1988-89 fiscal year, determines funding levels according to multiple factors including the level of funding in 1986-87, General Fund revenues, per capita personal income, and school attendance growth or decline.

Proposition 98 originally mandated funding at the greater of two calculations or Tests (Test 1 or Test 2). In 1990, Proposition 111 (SCA 1) was adopted to allow for a third funding test in low revenue years. As a result, three calculations or tests determine funding for school districts and community colleges (K-14). The calculation or test that is used depends on how the economy and General Fund revenues grow from year to year.

PROPOSITION 98 TEST CALCULATIONS

Test 1 — Percent of General Fund Revenues: Test 1 is based on a percentage or share of General Fund tax revenues. The base year for the Test 1 percentage is 1986-87, a year in which school districts and community colleges (K-14) received approximately 40 percent of General Fund tax revenues. As a result of shifts in property taxes between K-14 schools and other local government entities, as well as a shift in the number of programs funded within Proposition 98, the current rate is approximately 39 percent.

Test 2—Adjustments Based on Statewide Income: Test 2 is operative in years with normal to strong General Fund revenue growth. This calculation requires that school districts and community colleges receive at least the same amount of combined state aid and local property tax dollars as they received in the prior year, adjusted for enrollment growth and growth in per capita personal income.

Test 3—Adjustment Based on Available Revenues: Test 3 is used in low revenue years when General Fund revenues decline or grow slowly. During such years, the funding guarantee is adjusted according to available resources. A “low revenue year” is defined as one in which General Fund revenue growth per capita lags behind per capita personal income growth by more than one-half percentage point. Test 3 was designed so that education is treated no worse in low revenue years than other segments of the

state budget. In years following a Test 3 funding level, the state is required to provide funding to restore what was not allocated the previous year. This is often referred to as a “maintenance factor”.

K-12 SCHOOL FACILITIES

Since 1998, voters have approved approximately \$35 billion in statewide general obligation bonds to construct or renovate public school classrooms used by the state’s roughly six million elementary, middle and high school students. In addition to general obligation bonds, school districts may use developer fees, local bonds, certificates of participation and Mello-Roos bonds to construct additional classrooms or renovate existing classrooms.

Currently, there is no bond authority remaining in the core school facilities new construction and modernization programs. As a result, now is an appropriate time to engage in a dialogue on the future of school facilities funding. Central to this discussion must be a consideration of what role, if any, the state should play in the future of facilities funding. It is also appropriate to engage in a deeper examination of the acceleration in state bond issuances for school facilities over the course of the last 15 to 20 years. Further, there are problems inherent in the current program that must be examined. School facility funding and related debt service costs have been supported outside of operational funding provided to schools, as such, facility needs are not balanced with the operational needs of schools. The current School Facilities Program is overly complex and administered by multiple control agencies with fragmented responsibilities. The current program is also largely state-driven, restricting local flexibility and control.

The Administration suggests the following guiding principles:

- From a state perspective, future K-12 facilities funding needs must be considered in the context of other competing education and non-education priorities and needs.
- The school facilities construction process should be easy to understand and efficient.
- School districts and their respective localities should have appropriate control of the school facilities construction process and priorities.

- School districts and community college districts should have incentives to balance their facility costs against operational needs within the total amount of funding available from state and local sources for education.

K-12 BUDGET ADJUSTMENTS

Significant adjustments:

- **K-12 Deferrals**—An increase of approximately \$1.8 billion Proposition 98 General Fund to reduce inter-year budgetary deferrals. Combined with the \$2.2 billion provided in 2012-13 to retire inter-year deferrals, the total outstanding deferral debt for K-12 will be reduced to \$5.6 billion at the end of the 2013-14 fiscal year, and all remaining deferrals will be paid off by the end of the 2016-17 fiscal year. Inter-year deferrals for K-12 had reached a high of \$9.5 billion in the 2011-12 fiscal year.
- **New School District Funding Formula**—Additional growth of approximately \$1.6 billion in Proposition 98 General Fund for school districts and charter schools in 2013-14, an increase of 4.5 percent.
- **New County Office of Education Funding Formula**—An increase of \$28.2 million Proposition 98 General Fund to support first year implementation of a new funding formula for county offices of education in 2013-14.
- **Energy Efficiency Investments**—An increase of \$400.5 million Proposition 98 General Fund to support energy efficiency projects in schools consistent with Proposition 39.
- **Charter Schools**—An increase of \$48.5 million Proposition 98 General Fund to support projected charter school ADA growth.
- **Special Education**—An increase of \$3.6 million Proposition 98 General Fund for Special Education ADA growth.
- **K-12 Mandates Funding**—An increase of \$100 million to the K-12 portion of the mandates block grant to support costs associated with the Graduation Requirements and Behavioral Intervention Plans mandates.
- **Cost-of-Living Adjustment Increases**—The Budget provides \$62.8 million to support a 1.65-percent cost-of-living adjustment for a select group of categorical programs that will remain outside of the new student funding formula, including Special

K THRU 12 EDUCATION

Education, Child Nutrition, American Indian Education Centers, and the American Indian Early Childhood Education Program. Cost-of-living adjustments for school district and county office of education revenue limits will be provided in the form of new funding allocated for the implementation of the new funding formulas.

- Emergency Repair Program—An increase of \$9.7 million one-time Proposition 98 General Fund Reversion Account for the Emergency Repair Program.
- Local Property Tax Adjustments—An increase of \$526.6 million Proposition 98 General Fund for school district and county office of education revenue limits in 2012-13 as a result of lower offsetting property tax revenues. An increase of \$608.6 million in Proposition 98 General Fund for school districts and county offices of education in 2013-14 as a result of reduced offsetting local property tax revenues.
- Average Daily Attendance (ADA)—An increase of \$304.4 million in 2012-13 for school district and county office of education revenue limits as a result of an increase in projected ADA from the 2012 Budget Act. An increase of \$2.8 million in 2013-14 for school districts and county offices of education as a result of projected growth in ADA for 2013-14.
- Child Nutrition Program—An increase of \$77 million for 2013-14 in federal local assistance funds to reflect growth of nutrition programs at schools and other participating agencies.
- The revised 2012-13 Proposition 98 guarantee will be \$162.8 million below the level of General Fund appropriated in 2012-13. The Budget proposes that this amount be used to retire future funding obligations under the terms of the *CTA v. Schwarzenegger* settlement agreement.

CHILD CARE

Subsidized Child Care includes a variety of programs designed to support the gainful employment of low-income families. These programs are primarily administered by the Department of Education through non-Proposition 98 funding and the annual federal Child Care and Development Fund grant. All programs are means-tested and require that families receiving subsidies have a need for child care, which means all adults in the family must be working or seeking employment, or are in training that leads to employment. Most programs are capped, drawing eligible families from waiting lists, while those specifically limited to CalWORKs families or former CalWORKs families have been funded for all eligible recipients.

The major capped programs include General Child Care, Alternative Payment Program, and Migrant Child Care. CalWORKs programs include: Stage 1, administered by the Department of Social Services, is for families on cash assistance whose work activities have not stabilized; Stage 2, administered by the Department of Education, is for those CalWORKs families with stable work activities and for families who are transitioning off aid, for up to two years; and Stage 3, also administered by the Department of Education, is reserved for families who have successfully transitioned off aid for more than two years and still have a child care need.

The current subsidized child care system is fragmented by design. As discussed in the Health and Human Services Chapter, the Department of Social Services will convene a stakeholder group to assess the current structure of opportunities for streamlining and other improvements.

Significant adjustments:

- Child Care and Development Programs—The significant workload adjustments for these programs are as follows:
 - Stage 2—A decrease of \$21 million non-Proposition 98 General Fund in 2013-14, primarily to reflect a decline in the number of eligible CalWORKs Stage 2 beneficiaries. In 2010-11, approximately 6,000 children were determined eligible for diversion services in Stage 2. Currently, these children and their eligible families are re-entering Stage 3 in 2012-13, and this population trend will persist into 2013-14. Total base cost for Stage 2 is \$398.3 million.
 - Stage 3—An increase of \$24.2 million non-Proposition 98 General Fund in 2013-14 primarily to reflect the transfer of approximately 6,000 children from Stage 2 to Stage 3. Total base cost for Stage 3 is \$172.6 million.
 - Child Care and Development Funds—A net decrease of \$9.8 million federal funds in 2013-14 to reflect removal of one-time carryover funds available in 2012-13 (\$20.7 million), an increase of \$16.8 million in one-time carryover funds, and a decrease of \$5.9 million in available base grant funds.

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