

K THRU 12 EDUCATION

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

INVESTING IN EDUCATION

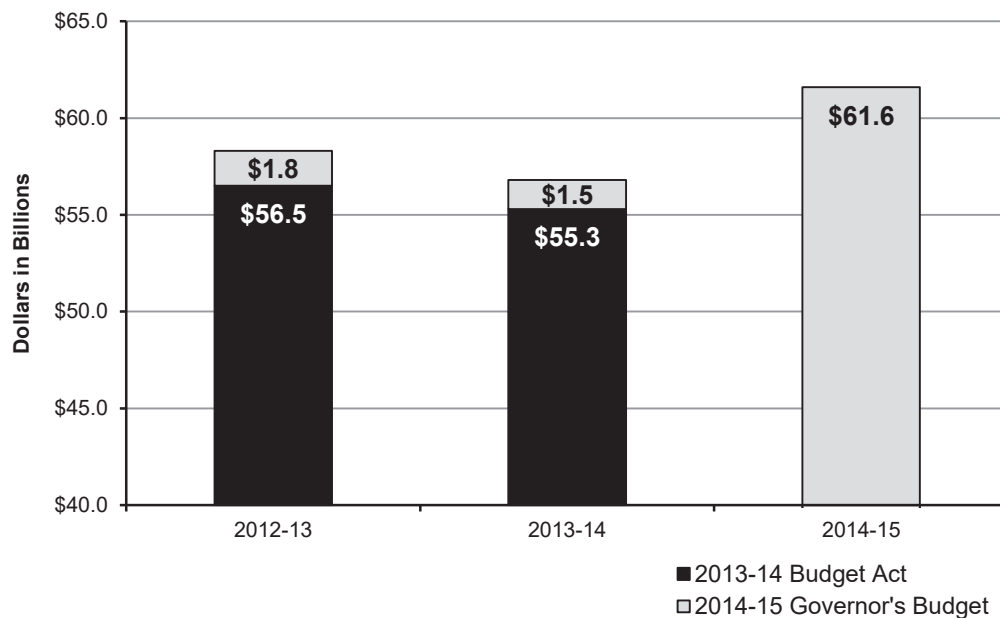
The Budget includes Proposition 98 funding of \$61.6 billion for 2014-15, an increase of \$6.3 billion over the 2013 Budget Act level. When combined with increases of \$3.4 billion in 2012-13 and 2013-14, the Budget proposes a \$9.7 billion investment in K-14 education. Building off the increases in funding provided in the Budget Acts of 2012 and 2013, the Budget proposes investments for 2014-15 that will significantly increase funding distributed under the Local Control Funding Formula, providing additional funding to school districts and students most in need of these resources. Investing significantly in the new formula will help the state reduce disparities, maximize student achievement, and strengthen the foundation for sustainable economic growth.

The Budget also eliminates all remaining budgetary deferrals, ensuring that schools receive all of their resources on time. During the height of the recession, the state deferred almost 20 percent of annual payments to schools, meaning that schools received a significant portion 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 \$6.4 billion in remaining K-14 deferred payments, providing certainty of funding for expected levels of programs and services, and eliminating any additional borrowing costs to be borne by schools and colleges as a result of deferrals.

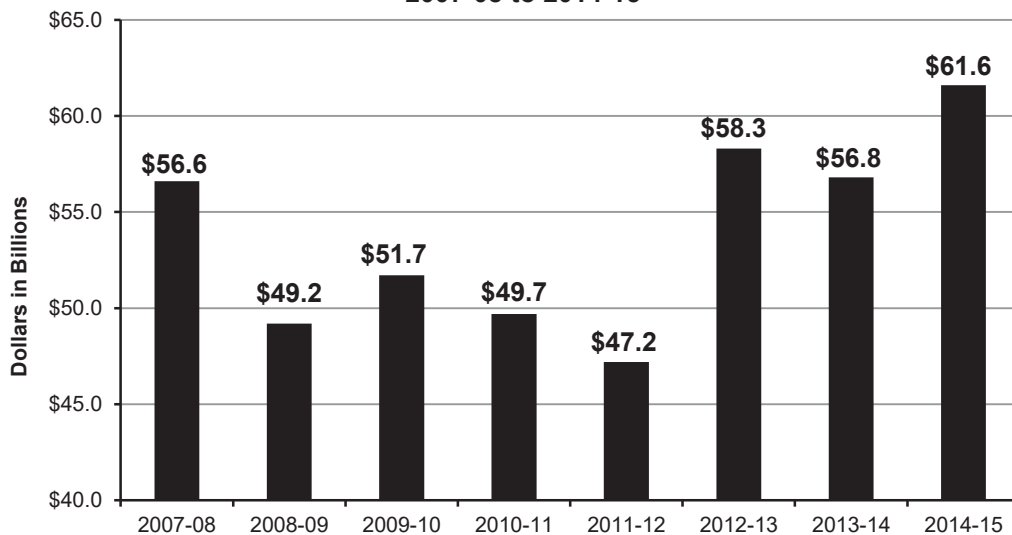
After reaching \$56.6 billion in 2007-08, Proposition 98 funding for K-14 education slipped to \$47.2 billion for 2011-12. Primarily as a result of increased General Fund revenues, the Proposition 98 Guarantee increases in 2012-13 and 2013-14, relative to the 2013 Budget Act levels—providing additional one-time resources in each of those years. These General Fund revenue increases also drive growth in the Proposition 98 Guarantee for 2014-15, as displayed in Figure K12-01. The cumulative impact of these one-time and ongoing funding increases of \$9.7 billion will allow schools and colleges to further restore and expand base programs and services, including teachers, staffing support, and other targeted investments.

Figure K12-01
Major Changes to Proposition 98 Guarantee Levels



Although the current trajectory of Proposition 98 funding is positive, the Proposition 98 Guarantee has historically been subject to significant volatility, as demonstrated in Figure K12-02. While the Administration is committed to significant investments in education, the Administration recognizes the long-term need for general budget funding stability, and more specifically, education funding stability. The Administration proposes a constitutional amendment to create a mechanism to help smooth year-to-year school spending to prevent damage caused by cuts, as discussed in the Introduction section of this document. The amendment will not change the overall guaranteed level of funding for education.

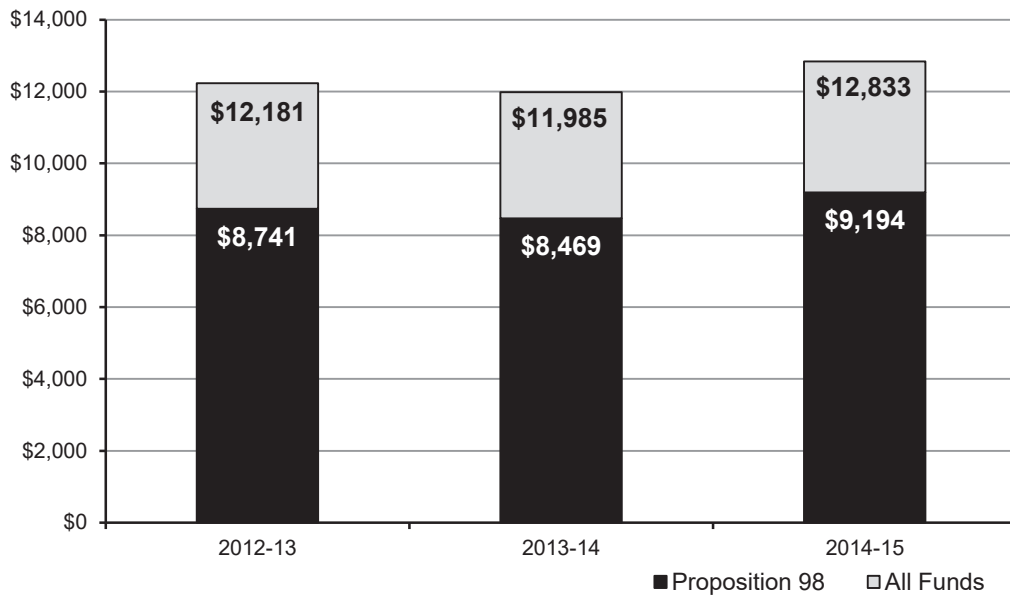
Figure K12-02
Proposition 98 Funding
2007-08 to 2014-15



K-12 PER-PUPIL SPENDING

Reflecting the recent significant increases in Proposition 98 funding, total per-pupil expenditures from all sources are projected to be \$11,985 in 2013-14 and \$12,833 in 2014-15, including funds provided for prior year settle-up obligations. Ongoing K-12 Proposition 98 per-pupil expenditures in the Budget are \$9,194 in 2014-15, up significantly from the \$8,469 per-pupil provided in 2013-14, and the \$7,006 provided in 2011-12. (See Figure K12-03).

Figure K12-03
K-12 Education Spending Per Pupil



IMPLEMENTING THE LOCAL CONTROL FUNDING FORMULA

Prior to the adoption of the Local Control Funding Formula, California’s school finance system had become overly complex, administratively costly, and inequitable. There were many different funding streams, each with their own allocation formula and spending restrictions. The system was state-driven, interfering with the ability of local officials to decide how best to meet the needs of students. Further, scholarly research and practical experience both indicated 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. Yet, the finance system did not address these issues.

In recognition of the challenges that characterized this system of school finance, the 2013 Budget Act established the Local Control Funding Formula. This new formula expands local control, reduces state bureaucracy, and ensures that student needs drive the allocation of resources. The new funding formula also promises increased transparency in school funding—empowering parents and local communities to access information in a more user-friendly manner and enhancing their ability to engage with their local governing board regarding school financial matters.

The Local Control Funding Formula includes the following major components:

- A base grant for each local education agency equivalent to \$7,829 per unit of average daily attendance (ADA), inclusive of the application of 2013-14 and 2014-15 cost-of-living adjustments. This amount also includes an adjustment of 10.4 percent to the base grant to support lowering class sizes in grades K-3, and an adjustment of 2.6 percent to reflect the cost of operating career technical education programs in high schools.
- A 20-percent supplemental grant for English learners, students from low-income families, and youth in foster care to reflect increased costs associated with educating those students.
- An additional concentration grant of up to 22.5 percent of a local education agency's base grant, based on the number of English learners, students from low-income families, and youth in foster care served by the local agency that comprise more than 55 percent of enrollment.
- An Economic Recovery Target to ensure that almost every local education agency receives at least their pre-recession funding level, adjusted for inflation, at full implementation of the Local Control Funding Formula.

The Budget provides a second-year investment of \$4.5 billion in the Local Control Funding Formula, enough to eliminate more than 28 percent of the remaining funding gap. To provide further funding certainty for school districts, the Administration proposes legislation to create a continuous appropriation for Local Control Funding Formula funding, ensuring that the formula continues to be implemented on schedule in future years.

ACCOUNTABILITY

In addition to fundamentally restructuring the distribution of funds to school districts, the Local Control Funding Formula substantially changed district accountability, moving away from a state-controlled system that emphasized inputs to a locally-controlled system focused on improving outcomes and accountability. Local school districts are now empowered to decide the best way to target funds. However, in exchange for that flexibility, districts are required to increase or improve services for English learner, low-income, and foster youth students in proportion to supplemental and concentration grant funding they receive through the Local Control Funding Formula. Guiding each school district, county office of education, and charter school through this new process will be locally developed and adopted local control and accountability plans, which will

identify local goals in areas that are priorities for the state, including pupil achievement, parent engagement, and school climate.

As the state continues to invest significantly in the Local Control Funding Formula and new accountability model, the state will retain an important role in supporting school districts that struggle to meet state and local expectations. Through the Collaborative for Education Excellence, school districts, county offices of education, and charter schools will be able to access advice and assistance necessary to meet the goals laid out in their local accountability plans. The state will continue to measure student achievement through statewide assessments, determine the contents of the school accountability report card, and establish policies to implement the federal accountability system.

INCREASING INSTRUCTIONAL FLEXIBILITY

The primary non-classroom based instructional method available to local educational agencies is through the use of non-classroom based independent study. Students work independently according to a written agreement and under the general supervision of a teacher. Funding for average daily attendance in these courses is calculated on a “time value of student work,” which requires each teacher to individually calculate a classroom time equivalent value for every activity assigned to a student engaged in independent study. Collectively, the requirements that schools must meet to provide and receive funding for this type of instruction are administratively burdensome, requiring teachers to spend time on paperwork instead of providing instruction. In some cases, these requirements may provide a disincentive to schools contemplating the use of these types of courses.

To address the deficiencies in the existing independent study process and provide schools with additional instructional flexibility, the Budget proposes legislation to both streamline and expand the instructional opportunities available through this process. This mode of learning has the potential to solve problems that are not easily addressed in traditional classroom-based settings and may help fill instructional gaps, while stabilizing or increasing the attendance of students who may have otherwise dropped out or transferred to other private instructional providers to accelerate their educational progress.

Schools offering instruction through this new streamlined process shall provide every student with a high quality education, and must ensure that independent study courses meet the following requirements:

- Are of the same rigor and educational quality as their classroom-based equivalent courses.
- Maintain the same number of total educational minutes as their classroom-based equivalent courses.
- Provide adequate teacher and student interaction, including at least one meeting per week to verify the student is working toward successful course completion.
- Maintain classroom-based equivalent pupil-to-teacher ratios unless a new alternative ratio is collectively bargained.
- Do not result in the local educational agency claiming more than one total unit of ADA per year for each student enrolled in independent study.

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 K-12 students. These bonds cost the General Fund approximately \$2.4 billion in debt service annually. 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. There is currently no bond authority remaining in the core school facilities new construction and modernization programs.

As part of the 2014 Five-Year Infrastructure Plan, the Administration proposes 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. This infrastructure discussion should also include the growing debt service costs associated with the state's increased reliance on debt financing.

The Administration proposes that any future program be easy to understand and provide school districts appropriate local control and fiscal incentives. The following problems are inherent in the current program and must be addressed:

- The current program is overly complex and reflects an evolution of assigning over ten different specialized state agencies fragmented oversight responsibility. The result is a structure that is cumbersome and costly for the state and local school districts.
- The current program does not compel districts to consider facilities funding within the context of other educational costs and priorities. For example, districts can generate and retain state facility program eligibility based on outdated or inconsistent enrollment projections. This often results in financial incentives for districts to build new schools to accommodate what is actually modest and absorbable enrollment growth. These incentives are exacerbated by the fact that general obligation bond debt is funded outside of Proposition 98.
- The current program allocates funding on a first-come, first-served basis resulting in a substantial competitive advantage for large school districts with dedicated personnel to manage facilities programs.
- The current program does not provide adequate local control for districts designing school facilities plans. Program eligibility is largely based on standardized facility definitions and classroom loading standards. As a result, districts are discouraged from utilizing modern educational delivery methods.

Any future program should be designed to provide districts with the tools and resources to address their core facility gaps, but should also avoid an unsustainable reliance on state debt issuance that characterizes the current school facilities program.

While the state examines the future of its role in school facilities, the Budget also includes the following proposals totaling an investment in school facilities of nearly \$400 million:

- Transfer \$211 million of remaining School Facility Program bond authority from the specialized programs to the core new construction (\$105.5 million) and modernization (\$105.5 million) programs to continue construction of new classrooms and modernization of existing classrooms for districts that have been awaiting funding. Approximately \$163 million, \$3 million, \$35 million, and \$10 million of general obligation bond authority currently remains in the Seismic Mitigation, Career Technical Education, High-Performance Incentive Grant, and Overcrowding Relief Grant programs, respectively.

- Dedicate \$188.1 million of one-time Proposition 98 General Fund to the Emergency Repair Program to provide grants or reimbursement to local educational agencies for the cost of repairing or replacing building systems that pose a health and safety threat to students and staff at eligible school sites. Schools previously identified by the California Department of Education as ranked in deciles one, two, or three based on the 2006 Academic Performance Index are eligible for funding.

OTHER REFORMS AND INVESTMENTS

In addition to reforming school finance, facilities, and instructional delivery methods, the Administration remains committed to additional reforms and investments in the areas of adult education, Common Core implementation, and energy efficiency.

ADULT EDUCATION

The 2013 Budget Act provided \$25 million Proposition 98 General Fund for two-year planning and implementation grants to regional consortia of community college districts and K-12 districts, \$15.1 million Proposition 98 General Fund Reversion for the Adults in Correctional Facilities program, and required K-12 districts to maintain the 2012-13 level of adult education and career technical education programs in 2013-14 and 2014-15.

Adult education consortia plans will be completed by early 2015, and the Administration intends to make an investment in the 2015-16 budget for adult education, including adult education provided in county jails, through a single restricted categorical program. The Administration will continue to work jointly with the State Department of Education and the California Community Colleges Chancellor's Office to complete the adult education consortia plans, while working with the Legislature to ensure that any legislation pertaining to adult education aligns with and supports the planning process currently underway, and provides consistent guidance to the K-12 and community college districts.

COMMON CORE IMPLEMENTATION

The 2013 Budget Act provided \$1.25 billion in one-time Proposition 98 General Fund to support the implementation of the Common Core state standards—new standards for evaluating student achievement in English-language arts and mathematics. Funding is provided to support necessary investments in professional development, instructional materials, and technology.

The Budget proposes an increase of \$46.5 million in Proposition 98 General Fund to implement Chapter 489, Statutes of 2013 (AB 484), which established a revised student assessment system aligned to the new state standards. Beginning with the administration of English-language arts and mathematics assessments developed by the Smarter Balanced Assessment Consortium, additional assessments will be included and developed using computer-based testing, whenever feasible, to assess the full breadth and depth of the curriculum.

ENERGY EFFICIENCY INVESTMENTS

Proposition 39, The California Clean Energy Jobs Act, was approved in 2012 and increases state corporate tax revenues. For 2013-14 through 2017-18, the measure requires half of the increased revenues, up to \$550 million per year, to be used to support energy efficiency.

The Budget proposes to allocate the \$363 million of energy efficiency funds available in 2014-15 as follows:

- \$316 million and \$39 million to K-12 school and community college districts, respectively, for energy efficiency project grants.
- \$5 million to the California Conservation Corps for continued technical assistance to K-12 school districts.
- \$3 million to the Workforce Investment Board for continued implementation of the job-training program.

While the Budget does not propose funding for additional revolving loans under the Energy Conservation Assistance Act (which was provided \$28 million in 2013-14), this program will continue to be considered for future funding.

K-12 BUDGET ADJUSTMENTS

Significant Adjustments:

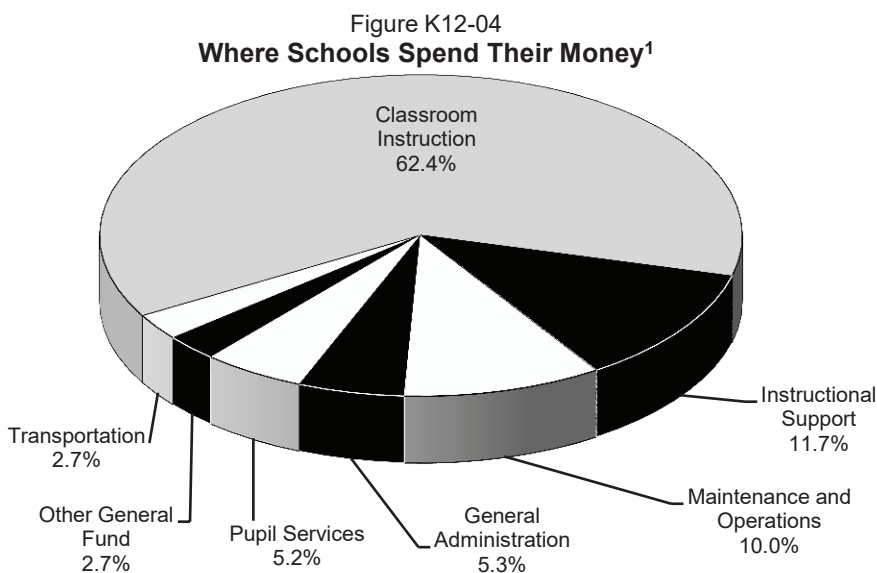
- K-12 Deferrals—An increase of more than \$2.2 billion Proposition 98 General Fund in 2014-15, when combined with the \$3.3 billion Proposition 98 General Fund provided from 2012-13 and 2013-14 funds, to eliminate all remaining outstanding deferral debt for K-12. Inter-year deferrals for K-12 had reached a high of \$9.5 billion in the 2011-12 fiscal year.

- School District Local Control Funding Formula—Additional growth of approximately \$4.5 billion in Proposition 98 General Fund for school districts and charter schools in 2014-15, an increase of 10.9 percent.
- County Office of Education Local Control Funding Formula—An increase of \$25.9 million Proposition 98 General Fund for county offices of education in 2014-15.
- Charter Schools—An increase of \$74.3 million Proposition 98 General Fund to support projected charter school ADA growth.
- Special Education—A decrease of \$16.2 million Proposition 98 General Fund to reflect a decline in Special Education ADA.
- Cost-of-Living Adjustment Increases—The Budget provides \$33.3 million to support a 0.86 percent cost-of-living adjustment for categorical programs that remain outside of the new student funding formula, including Special Education, Child Nutrition, American Indian Education Centers, and the American Indian Early Childhood Education Program. Cost-of-living adjustments for school districts and county offices of education are provided within the increases for school district and county office of education Local Control Funding Formula implementation noted above.
- Emergency Repair Program—An increase of \$188.1 million in one-time Proposition 98 General Fund resources for the Emergency Repair Program.
- Local Property Tax Adjustments—An increase of \$287.1 million Proposition 98 General Fund for the school district and county office of education local control funding formulas in 2013-14 as a result of lower offsetting property tax revenues. A decrease of \$529.7 million in Proposition 98 General Fund for school districts and county offices of education in 2014-15 as a result of increased offsetting local property tax revenues.
- Average Daily Attendance—A decrease of \$214.5 million in 2013-14 for the school district and county office of education local control funding formulas as a result of a decrease in projected ADA from the 2013 Budget Act. A decrease of \$42.9 million in 2014-15 for school districts and county offices of education as a result of projected decline in ADA for 2014-15.

K-12 SCHOOL SPENDING AND ATTENDANCE

HOW SCHOOLS SPEND THEIR MONEY

Figure K12-04 displays 2011-12 expenditures reported by school districts from their general funds, the various categories of expenditure and the share of total funding for each category. Figure K12-05 displays the revenue sources for school districts.



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 2011-12 expenditure data reported by schools for their general purpose funding.

ATTENDANCE

After a two-year period of increasing attendance, attendance in public schools began to decline in 2012-13. Public school attendance is projected to remain relatively stable during 2013-14 and decline slightly during 2014-15. For 2013-14, K-12 ADA is estimated to be 5,963,132, an increase of 702 from 2012-13. For 2014-15, the Budget estimates that K-12

ADA will drop by 7,002 from the 2013-14 level, to 5,956,130.

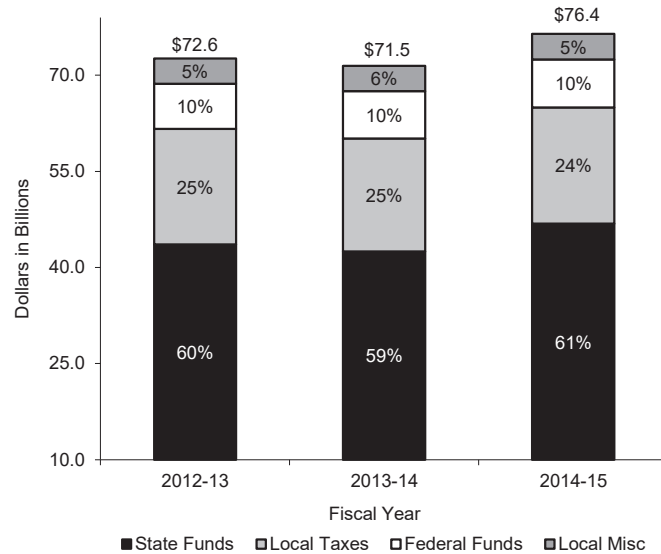
PROPOSITION 98 GUARANTEE

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.

For the 2012-13 through 2014-15 fiscal years, the operative Proposition 98 tests are 1, 3, and 1, respectively.

Figure K12-05
Sources of Revenue for California's K-12 Schools
(As a Percent of Total)



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, seeking employment, or 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.

K THRU 12 EDUCATION

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, for families on cash assistance whose work activities have not stabilized; Stage 2, administered by the Department of Education, 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, reserved for families who have successfully transitioned off aid for more than two years and still have a child care need.

As discussed in the Health and Human Services Chapter, the Budget includes a six-county, three-year engagement demonstration pilot to improve the outcome for 2,000 of the most vulnerable, low-income CalWORKs families by providing licensed subsidized child care and other services.

Significant Adjustments:

- Stage 2—An increase of \$6.3 million non-Proposition 98 General Fund in 2014-15 to reflect an increase in the cost-per-case of eligible CalWORKs Stage 2 beneficiaries and a slight decrease in the number of cases. Total base cost for Stage 2 is \$364.1 million.
- Stage 3—An increase of \$2.8 million non-Proposition 98 General Fund in 2014-15 to reflect an increase in the cost-per-case of eligible CalWORKs Stage 3 beneficiaries and a decrease in the number of cases. Total base cost for Stage 3 is \$185.8 million.
- Child Care and Development Funds—A net decrease of \$9.1 million federal funds in 2014-15 to reflect a reduction of available carryover funds (\$3.2 million), and a decrease of \$5.9 million to the base grant. Total federal funding is \$555.6 million.