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Overview of Local Control Funding Formula and K-12 Pension Costs

LEGISLATIVE ANALYST'S OFFICE

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Assembly Budget Subcommittee No. 2 on Education Finance
Hon. Kevin McCarty, Chair





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



Background

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



LCFF

- 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

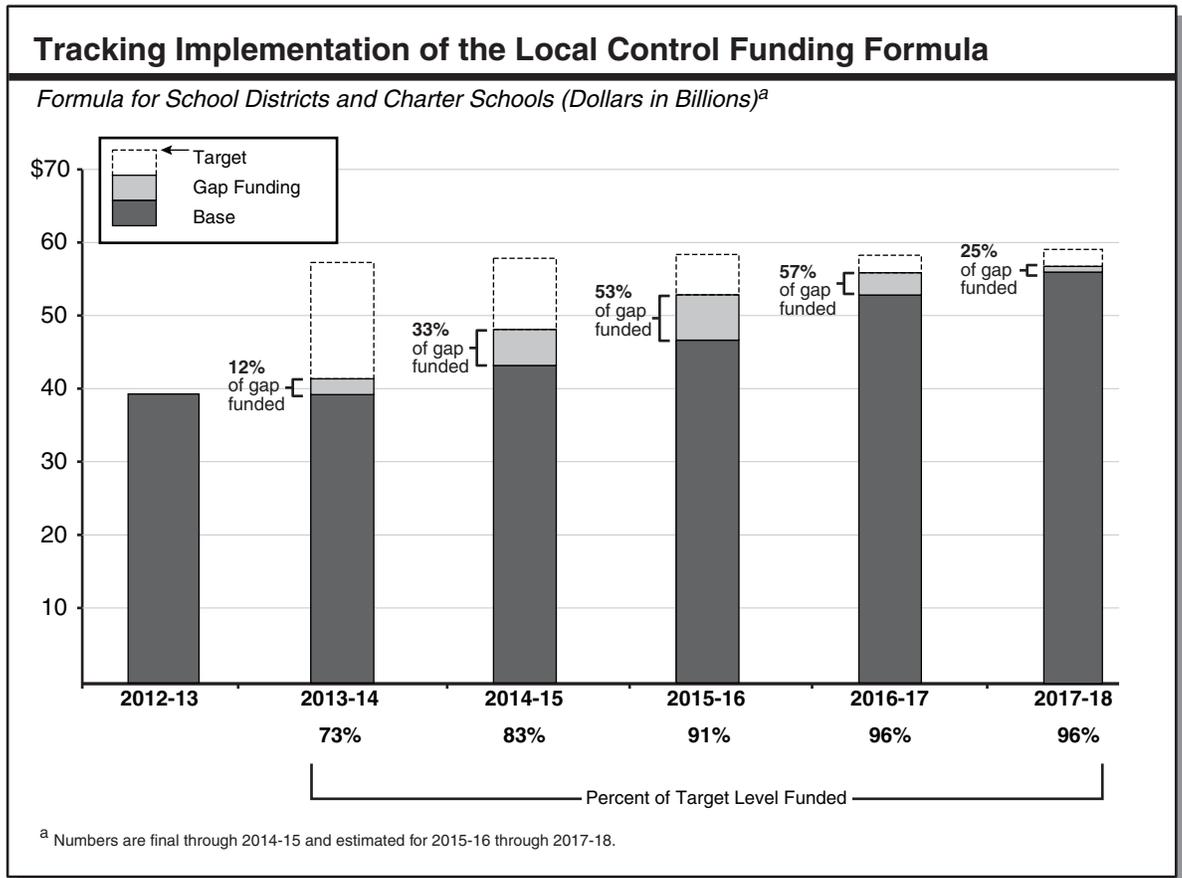


LCFF Implementation



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.

School Pension Costs



State Approved Plan in 2014-15 to Address Unfunded Liability in Teacher Pension System

- Intended to eliminate the unfunded liability within about 30 years. The plan phases in rate increases for the state and districts from 2014-15 through 2020-21 to begin reducing the unfunded liability.



Rates Also Increasing to Address Unfunded Liability in Pension System for Other School Employees

- The California Public Employees' Retirement System (CalPERS) board, which administers the retirement program for classified school employees, is phasing in rate increases for districts.



To Date, District LCFF Funding Has Grown Significantly More Than District Pension Costs

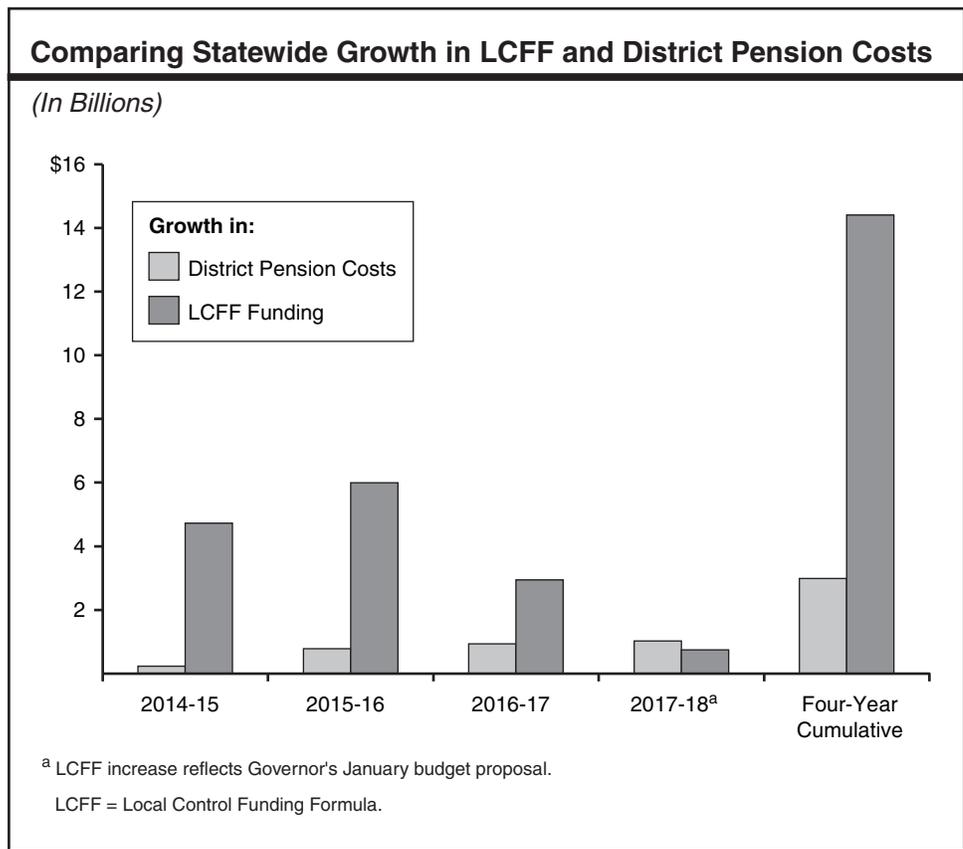
- From 2014-15 through 2016-17, growth in district pension costs statewide equated to less than 15 percent of statewide growth in LCFF funding.
- We estimate four-fifths of districts had their pension costs grow by less than 20 percent of their growth in LCFF funding.



Tide Could Turn in 2017-18

- Under the Governor's budget, growth in district pension contributions statewide (estimated at \$1 billion) would increase faster than total district LCFF funding (proposed at \$744 million).

- ☑ **District Pension Costs Are Estimated to Increase by About \$3 Billion From 2014-15 Through 2017-18**
- ☑ **LCFF Funding Expected to Increase \$14 Billion Over Same Period**



- ☑ **Addressing Unfunded Pension Liabilities Is Critical**
 - The pension systems for teachers and other school employees would be even more costly and contribution rates even higher were unfunded pension liabilities not to be addressed.
 - The state can help districts accommodate increased pension costs by continuing to provide unrestricted funding through the LCFF.