

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 1

Agenda

Senator John Laird, Chair
Senator Dave Min
Senator Rosilicie Ochoa Bogh



Wednesday, February 2, 2022
9:00 a.m.
State Capitol - Room 3191

Consultant: Yong Salas

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Public Comment

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6100 DEPARTMENT OF EDUCATION

Issue 1: State of Education

Panel.

- Superintendent of Public Instruction, Tony Thurmond

Background.

The Superintendent of Public Instruction will provide an update on the state of K-12 education in California. This item is informational only.

Issue 2: Independent Study

Panel.

- Dr. Hilda Maldonado, Superintendent, Santa Barbara Unified School District
- Cassandra Anderson-Maerklen, 3rd Grade Independent Study Teacher, San Juan Unified School District
- Colette Hetland, Instructional Aide, Arcata Unified School District
- Aaron Heredia, Department of Finance
- Michael Alferes, Legislative Analyst's Office
- Mary Nicely, Department of Education

Background.

Independent Study programs are intended to be an alternative to classroom instruction consistent with the local educational agency's (LEA) course of study, and is not an alternative curriculum. The flexibility of independent study programs allows it serve a variety of students – for example, students who are parents, who have been bullied, or are child actors or aspiring Olympic athletes.

In general, attendance for apportionment purposes in independent study is earned based on how long it would take to complete a lesson or assignment and not on “seat-time,” or the statutorily required time that students must be in school. In traditional independent study, a time value is assigned to student work products as determined by the teacher. Students in course-based independent study earn attendance if all of the certified course requirements are met and the student is making satisfactory progress.

With the emergency declaration of the COVID-19 pandemic in March 2020, the Governor issued a series of executive orders that allowed LEAs to waive or suspend certain requirements and provide instruction through distance learning or independent study, which continued into the 2020-21 school year. For the 2021-22 school year, however, students who wished to remain in distance learning were shifted into independent study programs.

AB 130 (Chapter 44, Statutes of 2021) allowed independent study for students whose parent or guardian determined that in-person instruction would put the student's health at risk, and to allow for the tracking of ADA. Some of the significant changes in AB 130 required a local educational agency to adopt and implement policies to: (1) require a level of satisfactory educational progress that would allow a student to remain in an independent study program, including pupil achievement and engagement, completion of assignments, learning required concepts, progressing toward completion of the course of study or specific course; (2) provide content aligned to grade level standards and equivalent to in-person instruction, including access to courses for graduation and meeting college going requirements, teacher qualifications, and ratios; (3) procedures for tiered re-engagement for students who are not generating attendance for three or more school days, or 60 percent, of instructional days in a school week, or are violating the independent study agreement; (4) a plan for specified synchronous instruction requirements by grade level, and (5) a plan to transition pupils when families wish to return to in-person instruction. It also required a

plan for independent study under existing laws around school closures for unanticipated events or natural disasters.

AB 130 further defined “live interaction” and “synchronous instruction” – while “live interaction” refers to interactions between students and teachers that does not necessarily involve instruction, “synchronous instruction” refers to instruction that is provided through a two-way interaction between a student and teachers, either in-person or through remote communications.

The current COVID-19 omicron variant that has caused the recent spikes in infections has resulted in severe staffing shortages and student absences, causing some school districts to temporarily close schools, and others to offer families independent study program contracts, increasing subscription for these programs, or offer other creative solutions for students to learn safely.¹ According to a January 21, 2022 Capital Public Radio news article², omicron cases and subsequent hospitalizations are expected to peak in late January. The state has not yet exited the omicron surge at the time of writing this agenda, and it is unknown whether other variants may emerge.

Governor’s Proposal.

The proposed budget includes trailer bill language that allows synchronous instruction to count for instructional time in traditional independent study, in addition to student work product, and provide flexibility on the timeline for a local educational agency to collect a signed independent study plan.

Suggested Questions.

- DOF: In addition to the changes proposed by the Administration, will the independent study framework that is currently in place continue into the 2022-23 school year?
- Local panelists: What improvements, if any, would you like to see in the independent study framework? What do you wish would remain?

Staff Recommendation. Hold open.

¹ Nieves, Alexander. “California school officials revise comments on remote learning options.” Pulled January 23, 2022. <https://www.politico.com/states/california/whiteboard/2022/01/13/california-school-officials-revise-comments-on-remote-learning-options-1405659>

² White, Randol. “Experts say omicron cases are falling in California but hospitalizations have yet to peak.” Pulled January 23, 2022. <https://www.caprado.org/articles/2022/01/21/experts-say-omicron-cases-are-falling-in-california-but-hospitalizations-have-yet-to-peak/>

Issue 3: Proposition 98 Overview and Structure

Panel.

- Aaron Heredia, Department of Finance
- Ken Kapphahn, Legislative Analyst's Office

Proposition 98.

California provides academic instruction and support services to more than six million public school students in kindergarten through twelfth grades (K-12) and 1.8 million students in community colleges. There are 58 county offices of education, approximately 1,000 local K-12 school districts, more than 10,000 K-12 schools, and more than 1,300 charter schools throughout the state. Of the K-12 students, approximately 3.7 million are low-income, English learners, or foster youth students or some combination of those categories. Approximately 1.06 million of the K-12 students served in public schools are English learners. There are also 72 community college districts, 114 community college campuses, and 70 educational centers. Proposition 98, which was passed by voters as an amendment to the state Constitution in 1988, and revised in 1990 by Proposition 111, was designed to guarantee a minimum level of funding for public schools and community colleges.

For 2022-23, the proposed budget includes \$102 billion in Proposition 98 funding. The Governor's budget also proposes to provide total Proposition 98 funding for 2020-21 of \$95.9 billion, an increase of \$2.5 billion over the 2021 final budget act level. For 2021-22, the Governor estimates an increase in the total Proposition 98 minimum guarantee of \$5.3 billion for a total of \$99.1 billion. These adjustments are primarily also the result of higher than anticipated General Fund revenues than projected at the 2021 final budget act. Additional Proposition 98 funds across the three year period are proposed to be used for a variety of expenditures, including the expansion of the Expanded Learning Opportunities program, changes to the Local Control Funding Formula (LCFF) calculations and provide a cost-of-living-adjustment (COLA) to LCFF, to increase the base rate for special education-related services, and for various targeted one-time programs.

Proposition 98 Funding. State funding for K-14 education—primarily K-12 local educational agencies and community colleges—is governed largely by Proposition 98. The measure, as modified by Proposition 111, establishes minimum funding requirements (referred to as the “minimum guarantee”) for K-14 education. General Fund resources, consisting largely of personal income taxes, sales and use taxes, and corporation taxes, are combined with the schools' share of local property tax revenues to fund the Proposition 98 minimum guarantee. These funds typically represent about 80 percent of statewide funds that K-12 schools receive. Non-Proposition 98 education funds largely consist of revenues from local parcel taxes, other local taxes and fees, federal funds and proceeds from the state lottery. In past years, there have been two statewide initiatives that increased General Fund revenues and therefore, the Proposition 98 minimum guarantee. Proposition 30, passed by the voters in 2012, raised sales and income taxes, but was designed to phase out over seven years. Anticipating the expiration of the Proposition 30 taxes,

Proposition 55 was passed by voters in 2016, extending the income tax portion of Proposition 30 for another 12 years.

The table below summarizes overall Proposition 98 funding for K-12 schools and community colleges since 2007-08, or just prior to the beginning of the Great Recession. 2011-12 marks the low point for the guarantee, with steady increases since then. The Great Recession impacted both General Fund resources and property taxes. The amount of property taxes has also been impacted by a large policy change in the past few years—the elimination of redevelopment agencies (RDAs) and the shift of property taxes formerly captured by the RDAs back to school districts. The guarantee was adjusted to account for these additional property taxes, so although Local Educational Agencies (LEAs) received significantly increased property taxes starting in 2012-13, they received a roughly corresponding reduction in General Fund.

The Governor’s 2022-23 proposed budget includes significant increases in comparison to the 2021 Budget Act, as revenues during the pandemic have come in significantly higher than anticipated.

**Proposition 98 Funding
Sources and Distributions
(Dollars in Millions)**

	Pre- Recession 2007-08	Low Point 2011-12	Revised 2020-21	Revised 2021-22	Proposed 2022-23
Sources					
General Fund	42,015	33,136	70,035	71,845	73,134
Property taxes	14,563	14,132	25,901	27,219	28,846
Total	56,577	47,268	95,936	99,064	101,980
Distribution					
K-12	50,344	41,901	82,089	84,407	87,326
CCC	6,112	5,285	10,766	11,075	11,593
PSSSA	N/A	N/A	3,081	3,582	3,061

Source: Legislative Analyst’s Office and Department of Finance

Calculating the Minimum Guarantee. The Proposition 98 minimum guarantee is determined by comparing the results of three “tests,” or formulas, which are based on specific economic and fiscal data. The factors considered in these tests include growth in personal income of state residents, growth in General Fund revenues, changes in student average daily attendance (ADA), and a calculated share of the General Fund. When Proposition 98 was first enacted by the voters in 1988, there were two “tests”, or formulas, to determine the required funding level. Test 1 calculates a percentage of General Fund revenues based on the pre-Proposition 98 level of General Fund that was provided to education, plus local property taxes. The Test 2 calculation is the prior year funding level adjusted for growth in student ADA and per capita personal income. K-14 education was initially guaranteed funding at the higher of these two tests. In 1990, Proposition 111 added a third test, Test 3, which takes the prior year funding level and adjusts it for growth in student ADA

and per capita General Fund revenues. The Proposition 98 formula was adjusted to compare Test 2 and Test 3, the lower of which is applicable. This applicable test is then compared to Test 1; and the higher of the tests determines the Proposition 98 minimum guarantee. Generally, Test 2 is operative during years when the General Fund is growing quickly and Test 3 is operative when General Fund revenues fall or grow slowly.

Proposition 98 Tests
Calculating the Level of Education Funding
(Including the 2022-23 Governor’s Budget Estimate)

Test	Calculated Level	Operative Year	Times Used
Test 1	Based on a calculated percent of General Fund revenues (currently around 38 percent).	If it would provide more funding than Test 2 or 3 (whichever is applicable).	9
Test 2	Based on prior year funding, adjusted for changes in per capita personal income and attendance.	If growth in personal income is \leq growth in General Fund revenues plus 0.5 percent.	16
Test 3	Based on prior year funding, adjusted for changes in General Fund revenues plus 0.5 percent and attendance.	If statewide personal income growth $>$ growth in General Fund revenues plus 0.5 percent.	8

Source: Legislative Analyst’s Office

The Governor’s proposal assumes that in 2020-21, 2021-22, and 2022-23 the Proposition 98 minimum guarantee is calculated under Test 1.

Generally, the Proposition 98 minimum guarantee calculation was designed in order to provide growth in education funding equivalent to growth in the overall economy, as reflected by changes in personal income (incorporated in Test 2). In a Test 3 year, the Proposition 98 minimum guarantee does not grow as fast as in a Test 2 year, recognizing the fact that the state’s General Fund is not reflecting the same strong growth as personal income and the state may not have the resources to fund at a Test 2 level; however, a maintenance factor is created, as discussed in more detail later.

The Test 1 percentage is historically-based, but is adjusted, or “rebenched,” to account for large policy changes that impact local property taxes for education or changes to the mix of programs funded within Proposition 98. In the past few years, rebenching was done to account for property tax changes, such as the dissolution of the redevelopment agencies (RDAs), and program changes, such as removing childcare from the Proposition 98 minimum guarantee and adding mental health services. In 2022-23, the Governor’s Budget adjusts the Test 1 percentage for the expansion of transitional kindergarten, which was included in the 2021 Budget. The 2022-23 Proposition 98 guarantee is likely to remain a Test 1 even with some changes in factors at the May Revision.

Suspension of Minimum Guarantee. Proposition 98 includes a provision that allows the Legislature and Governor to suspend the minimum funding requirements and instead provide an alternative level of funding. Such a suspension requires a two-thirds vote of the Legislature and the concurrence of the Governor. To date, the Legislature and Governor have suspended the Proposition 98 minimum guarantee twice; in 2004-05 and 2010-11. While the suspension of

Proposition 98 can create General Fund savings during the year in which it is invoked, it also creates obligations in the out-years, as explained below.

Maintenance Factor. When the state suspends the Proposition 98 minimum guarantee or when Test 3 is operative (that is, when the Proposition 98 minimum guarantee grows more slowly due to declining or low General Fund growth), the state creates an out-year obligation referred to as the “maintenance factor.” When growth in per capita General Fund revenues is higher than growth in per capita personal income (as determined by a specific formula also set forth in the state Constitution), the state is required to make maintenance factor payments, which accelerate growth in K-14 funding, until the determined maintenance factor obligation is fully restored. Outstanding maintenance factor balances are adjusted each year by growth in student ADA and per capita personal income.

The maintenance factor payment is added on to the minimum guarantee calculation using either Test 1 or Test 2.

- In a Test 2 year, the rule of thumb is that roughly 55 percent of additional revenues would be devoted to Proposition 98 to pay off the maintenance factor.
- In a Test 1 year, the amount of additional revenues going to Proposition 98 could approach 100 percent or more. This can occur because the required payment would be a combination of the 55 percent (or more) of new revenues, plus the established percentage of the General Fund—roughly 38 percent—that is used to determine the minimum guarantee.

Prior to 2012-13, the payment of maintenance factor was made only on top of Test 2; however, in 2012-13, the Proposition 98 guarantee was in an unusual situation as the state recovered from the recession. It was a Test 1 year and per capita General Fund revenues were growing significantly faster than per capita personal income. Based on a strict reading of the Constitution, the payment of maintenance factor is not linked to a specific test, but instead is required whenever growth in per capita General Fund revenues is higher than growth in per capita personal income. As a result, the state funded a maintenance factor payment on top of Test 1 and this interpretation can result in the potential for up to 100 percent or more of new revenues going to Proposition 98 in a Test 1 year with high per capita General Fund growth. This was the case in 2014-15, when the maintenance factor payment was more than \$5.6 billion. However, since the last recession the state has significantly increased funding for K-14 education due in part to payments made towards reducing the maintenance factor balance. As a result, the maintenance factor obligation was paid off in 2017-18.

Average Daily Attendance. One of the factors used to calculate the Proposition 98 minimum guarantee level is growth in ADA. In a Test 2 or Test 3 year, the guarantee is adjusted for changes in ADA. However, there is a hold harmless provision for reductions in ADA. Under that provision, negative growth is only reflected if the preceding two years also show declines. Under current projections, which reflect birth rates and migration, K-12 ADA is expected to decline slightly in coming years and the hold harmless will no longer apply for the guarantee calculation, contributing to a dampening effect on Proposition 98 guarantee growth in future years.

Settle-Up. Every year, the Legislature and the Governor estimate the Proposition 98 minimum guarantee before the final economic, fiscal, and attendance factors for the budget year are known.

If the estimate included in the budget for a given year is ultimately lower than the final calculation of the minimum guarantee, Proposition 98 requires the state to make a "settle-up" payment, or series of payments, in order to meet the final guarantee for that year. The Governor's budget proposal for 2022-23 increases expenditures substantially to meet the higher guarantee levels calculated for 2020-21 and 2021-22 as a result of the Governor's budget estimates.

Proposition 98 Certification. The 2018 budget package included a new process for certifying the Proposition 98 guarantee and the 2019 budget package made additional changes to this process. Under current statute, certification of the guarantee is a process by which the Department of Finance (DOF), in consultation with the Department of Education and the Chancellor's Office of the Community Colleges, verifies the factors for the calculation of the Proposition 98 guarantee and the appropriations and expenditures that count towards the guarantee level. Certifying the guarantee results in a finalized guarantee level for the year, as well as finalizing any settle-up owed as a result of changes in the guarantee level. Adjustments will be made to increase the guarantee after the fiscal year is over if the calculation results in an increase in a prior year, but makes no changes in the event of a decrease in a prior year. Prior to this new process, the guarantee was last certified for 2008-09. In August 2018, DOF released the proposed certification for the 2009-10 through 2016-17 fiscal years. The total settleup obligation associated with those five years was calculated at \$687 million and was fully paid off in the 2019-20 budget.

Public School System Stabilization Account (PSSSA). The state's Proposition 98 Rainy Day Fund was established with the passage of Proposition 2 in 2014. Proposition 2 also requires a deposit in a Proposition 98 Rainy Day Fund under certain circumstances. These required conditions are that maintenance factor accumulated prior to 2014-15 is paid off, Test 1 is in effect, the Proposition 98 guarantee is not suspended, and no maintenance factor is created. The 2022-23 proposed budget requires deposits for 2020-21, 2021-22, and 2022-23 payments of \$3.1 billion, \$3.6 billion, and \$3.1 billion, respectively, for a total balance of approximately \$9.7 billion.

Additionally, this level of PSSSA reserves triggers a statutory requirement that LEAs may not have local reserves in excess of 10 percent of their total annual expenditures, in the year after the state reserve balance is equal to or greater than 3 percent of the total TK-12 share of the annual Proposition 98 guarantee level. The balance of \$6.7 billion in 2021-22 triggers school district reserve caps beginning in 2022-23.

Proposition 98 K-12 Proposals:

Proposition 98 K-12 Education Changes. The proposed budget includes a Proposition 98 funding level of \$87.3 billion for K-12 programs. This includes a year-to-year increase of \$2.9 billion in Proposition 98 funding for K-12 education, as compared to the revised Proposition 98 K-12 funding level for 2021-22. Under the Governor's proposal, ongoing K-12 Proposition 98 per pupil expenditures increase from \$14,778 provided in 2021-22 (revised) to \$15,278 in 2022-23, an increase of 3.4 percent.

Governor's Budget Contains \$17.7 Billion in Proposition 98 Spending Proposals

In Millions

K-12 Education

Ongoing

Expanded Learning Opportunities Program (ELOP)	\$3,400
LCFF attendance (-2.19 percent) and COLA (5.33 percent) adjustments	2,106
New LCFF adjustment for declining enrollment	1,200
Transitional Kindergarten expansion	639
Universal school meals implementation	596
Special Education base rates	500
Transitional Kindergarten lower staffing ratios	383
COLA for select categorical programs (5.33 percent) ^a	352
State Preschool adjustment factor for students with disabilities	198
Annualization of State Preschool rate increases	166
After school program rates ^b	149
Charter school facilities upgrades	30
California College Guidance Initiative	9
Personnel Management Assistance Teams (PMATs)	5
Agricultural vocational education	2
Subtotal	<u>\$9,735</u>

One Time

Career pathways development	\$1,500
Green school bus grants	1,500
ELOP arts and music infrastructure	937
Literacy coaches and reading specialists	500
Inclusive Early Education Expansion Program	500
Dual enrollment access	500
School kitchen upgrades	450
Multilingual classroom libraries	200
Training on early identification of learning disabilities	60
Model curricula development	14
California College Guidance Initiative	4
School breakfast start-up grants	3
Subtotal	<u>\$6,169</u>
Total K-12 Education	\$15,904

^a Applies to Adults in Correctional Facilities, American Indian programs, Charter School Facility Grant Program, Child Nutrition, Foster Youth Program, K-12 Mandates Block Grant, Preschool, and Special Education.

^b Backfills rate increases provided in 2021-22 with one-time federal funds for the After School Education and Safety Program and 21st Century Community Learning Centers.

Source: Legislative Analyst's Office

K-12 Local Control Funding Formula. The bulk of funding for school districts and county offices of education for general operations is provided through the Local Control Funding Formula (LCFF) and is distributed based on the numbers of students served and certain student characteristics. The state fully funded the LCFF in 2018-19 and has annually adjusted the grant amounts by a cost-of-living adjustment (COLA). The budget proposes to amend the LCFF calculation to consider the greater of a school district's current year, prior year, or the average of three prior years' average daily attendance (ADA). The proposed budget additionally provides a COLA of 5.33 percent. These changes will lead to costs of approximately \$3.3 billion, for the 2022-23 fiscal year, bringing total LCFF funding to \$70.5 billion.

K-12 Special Education. The proposed budget includes \$500 million ongoing Proposition 98 General Fund for the special education funding formula, paired with changes to special education, including: (1) changes to the special education funding formula to calculate special education base funding allocations at the local educational agency level rather than the SELPA level, (2) consolidation of two special education extraordinary cost pools into a single cost pool to simplify the current funding formula, (3) allocation of Educationally-Related Mental Health Services funding directly to local educational agencies rather than to SELPAs, among others.

Expanded Learning Opportunities Program. The 2021-22 Budget Act established the Expanded Learning Opportunities Program to provide students access to after-school and intersessional expanded learning opportunities, and provided \$1 billion ongoing funds and \$754 million one-time Proposition 98 General Fund for the program, which by 2025-26 will provide all students in low-income communities with no-cost access to nine hours of developmentally appropriate academics and enrichment activities per instructional day and for six weeks each summer. Additionally, all local educational agencies, regardless of community demographics, are encouraged to offer subsidized services to all students, using a fee schedule that considers family income and ability to pay. The proposed budget includes an additional \$3.4 billion ongoing Proposition 98 General Fund for the Expanded Learning Opportunities Program, increasing per pupil funding for the program and expanding the number of local educational agencies offering no-cost services. The Budget also proposes \$937 million one-time Proposition 98 General Fund to support Expanded Learning Opportunities Program infrastructure, with a focus on integrating arts and music programming into the enrichment options for students. Finally, the Budget continues one-time reimbursement rate increases (at a cost of \$148.7 million ongoing Proposition 98 General Fund) from the 2021 Budget Act for the After School Education and Safety and 21st Century Community Learning Centers programs.

Educator Workforce. The proposed budget includes a total of \$54.4 million in a mix of Proposition 98 General Fund and General Fund to hire qualified teachers and substitutes by (1) waiving certain teacher examination fees, (2) extending the waiver of select credential fees, (3) re-establish the Personnel Management Assistance Teams to assist local educational agencies in improving hiring and recruitment practices, (4) extending statute authorizing any holder of a credential or permit issued by the Commission on Teacher Credentialing (CTC) to serve in a substitute teaching assignment aligned with their authorization, including for staff vacancies, for up to 60 cumulative days for any one assignment, among other proposals under the CTC.

Child Nutrition. Beginning in 2022-23, all public schools will be required to provide two free meals per day to any student who requests a meal, regardless of income eligibility. The proposed budget includes \$596 million Proposition 98 General Fund, to fund universal access to subsidized school meals. Additionally, the proposed budget includes \$450 million in one-time Proposition 98 General Fund, available over three years, to upgrade school kitchen infrastructure and equipment. Lastly, the proposed budget includes \$3 million one-time Proposition 98 General Fund to support School Breakfast and Summer Meal Start-Up and Expansion Grant Program.

Green Transportation. The proposed budget includes \$1.5 billion in one-time Proposition 98 General Fund, available over three years, to support school transportation programs, with a focus on green school bus fleets. Specifically, grants of at least \$500,000 would be available with priority for local educational agencies with high concentrations of low-income students, youth in foster care, and English language learners, as well as small and rural local educational agencies.

Career Pathways Development. The proposed budget includes \$1.5 billion one-time Proposition 98 General Fund over four years to support the development of pathway programs focused on technology, health care, education, and climate-related fields. These programs are predicated on developing local partnerships that bring together school systems, higher education institutions, employers, and other relevant community stakeholders.

Dual Enrollment Opportunities. The proposed budget includes \$500 million one-time Proposition 98 General Fund, available over four years, to expand dual enrollment opportunities coupled with student advising and support services. This is in conjunction with \$45 million in proposed higher education funding for curricular pathways software and public-private partnerships for STEM, education, and healthcare career preparation.

Cost-of-Living Adjustments. The proposed budget provides \$295 million Proposition 98 General Fund to support a 5.33 percent COLA for categorical programs that are not included in LCFF. These programs include special education and child nutrition, among others. The proposed funding level for the LCFF includes COLAs for school districts and county offices of education.

County Offices of Education. The proposed budget also includes \$11.5 million ongoing Proposition 98 General Fund to reflect the 5.33 percent COLA and ADA changes applicable to the LCFF.

Local Property Tax Adjustments. The proposed budget includes a decrease of \$127.8 million in ongoing Proposition 98 General Fund in 2021-22, and a decrease of \$1.4 billion in Proposition 98 General Fund in 2022-23 for school districts and county offices of education related changes to offsetting local property taxes.

Model Curricula. The proposed budget includes \$14 million in one-time Proposition 98 General Fund to support county offices of education in developing model curricula related to the Vietnamese American refugee experience, the Cambodian genocide, Hmong history and cultural studies, and Native American studies.

Agricultural Career Technical Education Incentive Grant. The proposed budget includes \$2 million ongoing Proposition 98 General Fund to support an augmentation to the Agricultural Career Technical Education Incentive Grant program.

K-12 Pension Contributions. For 2022-23, the Administration does not anticipate that the Teachers' Retirement Board will exercise its authority to increase state contributions by 0.5 percent of teacher payroll, as allowed in statute, due to the higher than expected investment return in 2020-21 and CalSTRS' current projections that the state's share of unfunded actuarial obligation will be eliminated by 2024-25. The CalSTRS employer contribution rate for 2022-23 is 19.1 percent, which includes costs of approximately \$7.1 billion. For CalPERS, the employer contribution rate in 2022-23 is 25.4 percent.

Legislative Analyst's Office.

The LAO's recent publication, *The 2022-23 Budget: Overview of the Governor's Budget*, included an analysis of the Governor's Proposition 98 Proposals. The LAO notes that due to increases in the minimum guarantee over the 2020-21 through 2022-23 period, the state has \$17.7 billion available for new spending on K-14 programs. Of this amount, nearly \$10.6 billion is for ongoing augmentations and nearly \$7.2 billion is for one-time activities. The budget contains a one-time cushion of more than \$4 billion in 2022-23, which consists of the one-time spending and reserve deposit specifically attributable to 2022-23. This cushion helps protect ongoing programs from volatility in the minimum guarantee. Specifically, to the extent the guarantee drops or grows more slowly in the future, the expiration of these one-time allocations allows the state to accommodate the lower guarantee without relying on program cuts or payment deferrals. The LAO notes that the state likely could weather a relatively mild recession without resorting to significant cuts or payment deferrals for school and community college programs.

The LAO recommends that the Legislature (1) fund fewer of the one-time proposals, and (2) prioritize proposals that address clearly defined problems. The LAO notes that districts face ongoing cost pressures related to higher inflation and pension rate increases, challenges maintaining continuity of operations due to the effects of the pandemic on students and staff, and elevated uncertainty over future enrollment trends and program participation levels. As districts are navigating these issues, they are also in the midst of implementing many new programs and requirements included in the June 2021 budget plan, and the LAO believes that districts would have a relatively limited capacity to implement additional programs in 2022-23. The LAO expressed concern that the Governor's budget contains so many proposals that districts will be unable to implement them all effectively, and recommends the Legislature fund fewer new activities than the Governor proposes.

Suggested Questions.

- LAO: Given the historical levels of Proposition 98 funding and the availability of nearly \$10 billion in ongoing funds, and in light of the LAO's recommendation to limit new programs, what would be some strategies to support districts as they face declining enrollment?

- DOF: Assuming that the COVID-19 pandemic continues, what resources and/or funding will be available to schools in the 2022-23 school year for continued pandemic response, such as PPE, testing, and vaccines?

Staff Recommendation. Hold open.

Issue 4: Local Control Funding Formula (LCFF)

Panel.

- Michael Fine, Fiscal Crisis and Management Assistance Team
- Lina Grant, Department of Finance
- Michael Alferes, Legislative Analyst's Office
- Mary Nicely, Department of Education

Background.

K-12 School Finance Reform. Commencing in the 2013-14 fiscal year, the state significantly reformed the system for allocating funding to LEAs - school districts, charter schools, and county offices of education (COEs). The LCFF replaced the state's prior system of distributing funds to LEAs through revenue limit apportionments (based on per student average daily attendance) and approximately 50 state categorical education programs.

Under the previous system, revenue limits provided LEAs with discretionary (unrestricted) funding for general education purposes, and categorical program (restricted) funding was provided for specialized purposes, with each program having a unique allocation methodology, spending restrictions, and reporting requirements. Revenue limits made up about two-thirds of state funding for schools, while categorical program funding made up the remaining one-third portion. That system became increasingly cumbersome to LEAs as they tried to meet student needs through various fund sources that were layered with individual requirements.

Local Control Funding Formula. The LCFF combines the prior funding from revenue limits and more than 30 categorical programs that were eliminated, and uses new methods to allocate these resources, additional amounts of new Proposition 98 funding since 2013-14, and future allocations to LEAs. The LCFF allows LEAs much greater flexibility in how they spend the funds. There is a single funding formula for school districts and charter schools, and a separate funding formula for COEs that has some similarities to the district formula, but also some key differences.

School Districts and Charter Schools Formula. The LCFF is designed to provide districts and charter schools with the bulk of their resources in unrestricted funding to support the basic educational program for all students. It also includes additional funding based on the enrollment of low-income students, English learners, and foster youth for increasing or improving services to these high-needs students. Low-income students, English learners, and foster youth students are referred to as "unduplicated" students in reference to the LCFF because, for the purpose of providing supplemental and concentration grant funding, these students are counted once,

regardless of if they fit into more than one of the three identified high-need categories. Major components of the formula are briefly described below.

- **Base Grants** are calculated on a per-student basis (measured by student ADA) according to grade span (K-3, 4-6, 7-8, and 9-12) with adjustments that increase the base rates for grades K3 (10.4 percent of base rate) and grades 9-12 (2.6 percent of base rate). The adjustment for grades K-3 is associated with a requirement to reduce class sizes in those grades to no more than 24 students by 2020-21, unless other agreements are collectively bargained at the local level. The adjustment for grades 9-12 recognizes the additional cost of providing career technical education in high schools. For school districts, funded ADA is equal to the greater of current or prior year ADA.
- **Supplemental Grants** provide an additional 20 percent in base grant funding for the percentage of enrollment that is made up of unduplicated students.
- **Concentration Grants** provide an additional 50 percent above base grant funding for the percentage of unduplicated students that exceed 55 percent of total enrollment.
- **Categorical Program** add-ons for Targeted Instructional Improvement Block Grant and Home-to-School Transportation provide districts the same amount of funding they received for these two programs in 2012-13. The transportation funds must be used for transportation purposes. Charter schools are not eligible for these add-ons.
- **LCFF Economic Recovery Target** add-on ensured that districts receive, by 2020-21, at least the amount of funding they would have received under the old finance system to restore funding to their 2007-08 level adjusted for inflation. Districts are not eligible for this add-on if their LCFF funding exceeds the 90th percentile of per-pupil funding rates estimated under the old system.
- **Hold Harmless Provision** ensures that no school district or charter school will receive less funding under the LCFF than its 2012-13 funding level under the old system.

Budget Appropriations. The LCFF established new “target” LCFF funding amounts for each LEA, and these amounts are adjusted annually for COLA and pupil counts. When the formula was initially introduced, funding all school districts and charter schools at their target levels was expected to take eight years and cost an additional \$18 billion, with completion by 2020-21. However, Proposition 98 growth exceeded expectations and LCFF was fully funded in the 2018-19 fiscal year for school districts and charter schools. COEs reached their target funding levels in 2014-15, which adjusts each year for COLAs and ADA growth. The 2018-19 budget also provided an additional amount above the required COLA to provide a \$670 million increase to LCFF grants. With full-funding of the formula, LEAs and stakeholders can see how much funding is received through base, supplemental, and concentration grants on the CDE website and reported through each LEA’s local control and accountability plan (LCAP). The 2021-22 Budget provided a 4.05 percent cost-of-living adjustment, which cost approximately \$225 million.

Restrictions on Supplemental Funding. Statute requires LEAs to increase or improve services for unduplicated students in proportion to the supplemental funding LEAs receive for the enrollment of these students. The law also allows this funding to be used for school-wide and district-wide purposes. The State Board of Education (SBE) adopted regulations governing LEAs expenditures of this supplemental funding that require an LEA to increase or improve services for unduplicated students, compared to the services provided for all students, in proportion to the supplemental funding LEAs receive for the enrollment of these students. LEAs determine the proportion by which an LEA must increase or improve services by dividing the amount of the LCFF funding attributed to the supplemental and concentration grant by the remainder of the LEA's LCFF funding. Whereas, this percentage (known as the minimum proportionality percentage (MPP)), relied on an LEA's estimates during the transition period, under a fully funded system is based on the actual allocation to each LEA as determined by the CDE. The regulations allow an LEA to meet this requirement to increase or improve services in a qualitative or quantitative manner and detail these expenditures in their LCAP.

County Offices of Education Formula. The COE formula is very similar to the school district formula, in terms of providing base grants, plus supplemental and concentration grants for the students that COEs serve directly, typically in an alternative school setting. However, COEs also receive an operational grant that is calculated based on the number of districts within the COE and the number of students county-wide. This operational grant reflects the additional responsibilities COEs have for support and oversight of the districts and students in their county.

Similar to the LCFF formula for school districts and charter schools, COEs were also guaranteed that they would not get less funding than was received in 2012-13. In addition, COEs were held harmless for the amount of state aid (essentially the value of the categorical funding) received in 2012-13. Unlike school districts, for COEs this minimum state aid amount floats above their target, meaning that as local property tax revenue grows in a county over time and funds their LCFF allocation, the minimum state aid allotment for that COE becomes a new bonus in base funding on top of the their LCFF level.

Governor's Budget Proposal.

The proposed budget includes a COLA of 5.33 percent, as well as an adjustment to the funding formula that would consider the current year, prior year, or the average of three prior years' ADA. The changes to the funding formula, with the 5.33 percent COLA, costs approximately \$3.3 billion, bringing total LCFF funding to \$70.5 billion. While the Governor's proposal does not include changes for charter schools, the Administration has indicated that it will engage with interested parties throughout the spring to explore options for providing declining enrollment protections for charter schools.

Fiscal Health of School Districts

The Fiscal Crisis and Management Assistance Team (FCMAT) provides a statewide resource to help monitoring agencies in providing fiscal and management guidance and helps local education agencies (LEAs) - school districts, county offices of education (COEs), and charter schools, as well as community college districts - fulfill their financial and management responsibilities. Lead FCMAT staff will provide a general overview of the fiscal health of school districts and context for the proposed changes to the LCFF.

Legislative Analyst's Office.

The LAO recommends the Legislature approve the Governor's proposal to credit districts with the higher of their current year, prior year, or average of three prior years for purposes of their LCFF allocations. The proposal would address short-term drops in funding due to the pandemic, as well as provide declining districts more time to adjust educational programming for their remaining students. In addition, districts that are growing will continue to be receive increases in their LCFF funding.

Additionally, the LAO recommends considering a temporary adjustment for charter schools. Unlike school districts, however, charter schools face the prospect of immediate funding reductions based on attendance declines they experience in 2021-22. One option the LAO provides would be to allow charter schools to receive funding based on their pre-pandemic attendance for another year, and provide the Legislature and the administration more time to examine longer-term alternatives.

The LAO also estimates that the COLA may increase to 6.17 percent by the May Revision. Covering this higher COLA rate for LCFF would cost approximately \$2.6 billion, an increase of \$500 million compared with the estimate in the Governor's budget.

Suggested Questions.

- FCMAT: What are the common themes that are emerging as the root cause or causes of fiscal distress in the school districts you are working with currently?
- FCMAT: Of the school districts that are currently experiencing fiscal distress, would there be any school districts that would still be in fiscal distress even with the funding formula changes?
- LAO: Are there other proposals the Legislature should consider that would help stabilize district funding while districts are facing declining enrollment?
- DOF: With regard to declining enrollment protections for charter schools, would the Administration be able to provide an update on the progress of these conversations, and if available, what this proposal may look like?

Staff Recommendation. Hold open.