Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 1 Agenda

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

Monday, February 1, 2021
9:00 a.m.
State Capitol - Room 3191

Consultant: Elisa Wynne

AGENDA

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

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: 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 over six million public school students in kindergarten through twelfth grades (K-12) and 2.1 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 1,200 charter schools throughout the state. Of the K-12 students, approximately 3.9 million are low-income, English learners, or foster youth students or some combination of those categories. Approximately 1.15 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 2021-22, the proposed budget includes $88.1 billion in Proposition 98 funding—$85.8 billion related to meeting the minimum guarantee and a $2.3 billion supplemental payment. The Governor's budget also proposes to provide total Proposition 98 funding for 2019-20 of $79.5 billion, an increase of $1.9 billion over the 2020 final budget act level. For 2020-21, the Governor estimates an increase in the total Proposition 98 minimum guarantee of $11.9 billion for a total of $82.8 billion. These adjustments are primarily also the result of higher than anticipated General Fund revenues than projected at the 2020 final budget act related to the impact of the COVID-19 pandemic. Additional Proposition 98 funds across the three year period are proposed to be used for a variety of expenditures, including paying down two-thirds of payment deferrals enacted in the 2020 Budget Act, providing funds to local educational agencies (LEAs) to re-open schools, and to fund academic interventions and expanded learning opportunities, and to provide a cost-of-living-adjustment (COLA) for the Local Control Funding Formula (LCFF), to provide funding 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.

More recently, the 2020 Budget Act included significant reductions in the Proposition 98 Guarantee related to pandemic related estimates. However, the Governor's 2021-22 proposed budget includes significant increases in comparison to the 2020 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 **2019-20**	Revised **2020-21**	Proposed **2021-22**
Sources					
General Fund	42,015	33,136	54,470	56,942	60,835
Property taxes	14,563	14,132	25,073	25,887	27,270
Total	**56,577**	**47,268**	**79,544**	**82,828**	**88,105**
Distribution					
K-12	50,344	41,901	70,230	72,494	75,854
CCC	6,112	5,285	9,313	9,588	10,011
PSSSA	N/A	N/A	N/A	747	2,241

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 2021-22 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 ≤ growth in General Fund revenues plus 0.5 percent.	13
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.	10

The Governor's proposal assumes that in 2019-20, 2020-21, and 2021-22 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 2021-22, the Governor's Budget adjusts the Test 1 percentage for the continued impact of prior RDA changes. The 2021-22 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 2021-22 increases expenditures substantially to meet the higher guarantee levels calculated for 2019-20 and 2020-21 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 settle-up 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 2021-22 proposed budget requires deposits for 2020-21 and 2021-22 of $747 million and $2.4 billion, respectively, for a total balance of approximately $3 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. This cap on local reserves would be in effect in the 2022-23 fiscal year for all LEAs above 2,500 ADA, with an exception for basic aid school districts. The 2021-22 guarantee calculation would set this trigger level at $2.3 billion. Should this local reserves cap go into effect in 2022-23, the LAO estimates that approximately 130 LEAs statewide would be impacted, based on a state review in 2018-19 of LEA reserve levels: at the end of the 2018-19 fiscal year, districts held a total of $12.8 billion in unrestricted reserves. The data indicate that $6.9 billion of this amount was earmarked for specific uses and $5.9 billion was not earmarked.

Proposition 98 Multi-Year Obligation. The 2020-21 budget included a multi-year payment obligation designed to supplement funding provided by Proposition 98. This new obligation designated 1.5 percent of General Fund Revenues per year to K-14 education beginning in 2021-22 to provide $12.4 billion over a multi-year period. This funding was intended to accelerate the recovery of the Proposition 98 Guarantee from reductions due to the impact of COVID-19 and increase the Proposition 98 share of General Fund from 38 to 40 percent in a Test 1 year by 2023-24. With the General Fund revenues estimated in the proposed budget, the recovery of the Proposition 98 Guarantee from reductions related to COVID-19 is achieved and the 2021-22 budget provides a one-time overappropriation of the Proposition 98 Guarantee in 2021-22 by $2.3 billion and eliminates this statutory obligation in future years

<u>Proposition 98 K-12 Proposals:</u>

Proposition 98 K-12 Education Changes. The proposed budget includes a Proposition 98 funding level of $75.9 billion for K-12 programs. This includes a year-to-year increase of $3.4 billion in Proposition 98 funding for K-12 education, as compared to the revised Proposition 98 K-12 funding level for 2020-21. Under the Governor's proposal, ongoing K-12 Proposition 98 per pupil expenditures increase from $12,372 provided in 2020-21 (revised) to $13,015 in 2021-22, an increase of 5.2 percent.

Governor's Budget Contains $17.3 Billion in K-12 Proposition 98 Spending Proposals
(In Millions)

K-12 Education	
Ongoing	
LCFF growth and COLA (3.84 percent)	$1,991
Preschool-aged children with disabilities	300
COLA for select categorical programs (1.5 percent)	88
Mental health services incentive grants	25
Subtotal	$2,404
One Time	
Deferral paydown	$7,318
Expanded learning and academic intervention	4,557
In-person instruction grants	2,000
Community Schools Grant Program	265
TK Expansion Incentive Grants	250
Educator Effectiveness Block Grant	250
Teacher Residency Grant Program	100
Training for TK teachers	50
Educator professional development for social-emotional learning	50
Classified Teacher Credential Program	25
School climate surveys	10
Early Math Initiative	7
Ethnic studies professional development	5
Medi-Cal billing professional learning networks	5
Other	9
Subtotal	$14,903
Total K-12 Education	$17,306

Source: Legislative Analyst’s Office

Deferrals. In order to reduce Proposition 98 expenditures to the minimum guarantee level, but shield LEAs from the impact of cuts, the 2020 budget agreement included deferrals of payments from one year to the next. Specifically, the budget deferred a total of $11 billion in principal apportionment payments to LEAs reducing apportionments for the Proposition 98 Guarantee by this amount in 2020-21 in order to meet the Proposition 98 Guarantee as of the 2020 Budget Act. The 2021-22 proposed budget includes paying down $7.3 billion in deferrals in 2021-22, while the remainder of $3.7 billion would continue to be deferred from 2021-22 to 2022-23 and in ongoing years.

K-12 Pension Contributions. The 2020-21 Budget Act appropriated $1.15 billion to offset 2021-22 LEA pension contributions. For 2021-22, CalSTRS will apply $820 million to reduce the employer rate from 18.1 percent to approximately 15.92 percent, and CalPERS will apply $330 million to reduce the Schools Pool employer contribution rate from 24.9 percent to 23 percent.

Immediate Support for Schools - Early Action Items. The proposed budget includes a total of $6.6 billion in one-time Proposition 98 General Fund to provide immediate support for schools and the Governor requests early action on this package.

- Specifically, $2 billion would be provided in grants for LEAs that adhere to COVID-19 related health and safety guidance from the California Department of Public Health, including for completing safety plans and adopting a state-recommended testing cadence for teachers and students, and open for in-person instruction by March 15th. Those LEAs that have already opened or open for in-person instruction by February 15th would be eligible for higher grant amounts. Accompanying trailer bill language specifies that LEAs would need to open for grades kindergarten through 2 and for specified high-risk populations by February 15th, increasing through grade 6 by March 15th. Additional provisions are made for schools in counties in severe purple tiers to remain closed but remain eligible for funding.

- The remaining $4.6 billion would be available for all LEAs for targeted interventions that focus on students from low-income families, English language learners, youth in foster care, and homeless youth, including for extending the school year, providing summer school, or other targeted strategies that address learning loss related to the pandemic, including community learning hubs. (Discussed later in this agenda)

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 typically annually adjusts the grant amounts by a cost-of-living adjustment (COLA). In the 2020-21 Budget Act, a COLA was not included for the LCFF. The proposed budget provides a COLA of 3.84 percent (1.5 percent attributed to 2021-22 and 2.31 percent to reflect the foregone COLA in 2020-21), approximately $2 billion, for the 2021-22 fiscal year, bringing total LCFF funding to $64.5 billion.

In addition, while the 2020-21 budget included a hold harmless on average daily attendance for purposes of LCFF (the hold harmless also applies for the 2021-22 school year) and authorized distance learning for 2020-21, the proposed budget makes no similar provisions for 2021-22. Instead the Administration notes an expectation of in-person instruction in the 2021-22 school year, but commits to working with the Legislature on any needed flexibilities due to continued impacts of the COVID-19 pandemic.

K-12 Special Education. The proposed budget included an increase of $300 million in ongoing Proposition 98 General Fund for the Special Education Early Intervention grant, to be provided to LEAs based on the number of three through five-year olds with exceptional needs. The proposed budget also includes $5 million one-time Proposition 98 General Fund to establish professional learning networks to increase LEA capacity to access federal Medi-Cal funds; $250,000 one-time Proposition 98 General Fund for a lead county office of education to provide guidance for Medi-Cal billing within the statewide system of support; and $500,000 one-time Proposition 98 General Fund for a study to examine certification and oversight of non-public school special education placements.

Community Schools. The proposed budget includes $264.9 million in one-time Proposition 98 General Fund for grants to LEAs to support existing networks of community schools, establish new community schools, and to coordinate a wide range of services to these schools, with priority given to schools in high-poverty communities.

Teacher Training, Recruitment, and Retention. The proposed budget includes the following programs and funds to recruit, retain, and support educators:

- $250 million one-time Proposition 98 General Fund for the Educator Effectiveness Block Grant to provide LEAs with resources to expedite professional development for teachers, administrators, and other in-person staff, in high-need areas including accelerated learning, re-engaging students, restorative practices, and implicit bias training.

- $100 million one-time non-Proposition 98 General Fund for continued investment in the Golden State Teacher Grant Program, which provides grants to students enrolled in teacher preparation programs who commit to working in high-need fields and at schools with high rates of under-prepared teachers.

- $100 million one-time Proposition 98 General Fund to expand the Teacher Residency Program, which supports clinical teacher preparation programs dedicated to preparing and retaining teachers in high-need communities and subject areas, including special education, bilingual education, and STEM.

- $50 million one-time Proposition 98 General Fund to create statewide resources and provide targeted professional development on social-emotional learning and trauma-informed practices.

- $25 million one-time Proposition 98 General Fund to expand the Classified School Employees Credentialing Program, which provides grants to local educational agencies to recruit non-certificated school employees to become certificated classroom teachers.

- $8.3 million one-time Proposition 98 General Fund for the California Early Math Initiative to provide teachers with professional development in mathematics teaching strategies for young children pre-K through third grade through the statewide system of support.

- $7 million one-time non-Proposition 98 General Fund to the University of California Subject Matter Projects to create high-quality professional development on learning loss in core subject matter content areas like reading, math, and ethnic studies.

- $5 million one-time Proposition 98 General Fund to fund professional development and instructional materials for local educational agencies who are offering, or would like to offer, courses on ethnic studies.

K-12 School Facilities. In November 2016, the voters passed the Kindergarten through Community College Facilities Bond Act of 2016 (Proposition 51), which authorizes the state to sell $9 billion in general obligation bonds for K-14 facilities ($7 billion for K-12 and $2 billion for community colleges). The proposed budget includes approximately $1.5 million in K-12 bond authority in 2021-22, similar to the amount included in prior years, for new construction, modernization, career technical education, and charter facility projects.

K-12 School Mental Health. The proposed budget includes $25 million one-time Mental Health Services Fund (Proposition 63), available over multiple years, to expand the Mental Health Student Services Act Partnership Grant Program, which funds partnerships between county behavioral health departments and schools. In addition, the proposed budget includes $25 million ongoing Proposition 98 General Fund to fund innovative partnerships with county behavioral health to support student mental health services. This funding would be provided to LEAs to match funding in county Mental Health Services Act spending plans dedicated to the mental health needs of students.

In addition, the Department of Managed Health Care Services budget includes a related proposal to provide $400 million one-time in a mix of federal funds and General Fund, available over multiple years, for the Department of Health Care Services to implement an incentive program through Medi-Cal Managed Care Plans, administered by county behavioral health departments and schools.

School Climate Surveys. The proposed budget includes $10 million one-time Proposition 98 General Fund to a county office of education to support the use of school climate surveys, including through training for LEAs, and providing start-up grants to LEAs for the use of school climate surveys.

County Offices of Education. The proposed budget includes an increase of $10.2 million ongoing Proposition 98 General Fund to reflect a 1.5 percent COLA and ADA changes applicable to the LCFF.

Instructional Quality Commission. The proposed budget includes an increase of $206,000 one-time non-Proposition 98 General Fund for the Instructional Quality Commission to continue its work on the development of model curriculum and frameworks.

Cost-of-Living Adjustments. The proposed budget also provides $85.7 million Proposition 98 General Fund to support a 1.5 percent COLA for categorical programs that are not included in LCFF. These programs include special education and child nutrition, among others.

Local Property Tax Adjustments. The proposed budget includes an increase of $54.1 million ongoing Proposition 98 General Fund for school districts and county offices of education in 2020-21 as a result of decreased offsetting property tax revenues, and a decrease of $1.2 billion ongoing Proposition 98 General Fund for school districts and county offices of education in 2021-22 as a result of increased offsetting property taxes.

LCFF Fiscal Accountability. The proposed budget includes a proposal to be detailed in upcoming trailer bill language that would address concerns that some LEAs allocate funds for increased and improved services in the Local Control and Accountability Plan (LCAP) and then leave them unspent, reallocating them for other purposes in future years by requiring that, once established, an LEA's responsibility to increase and improve services continues until fulfilled.

Adults in Charter Schools. The proposed budget includes a proposal to be detailed in upcoming trailer bill language that would clarify current law allowing charter schools in exclusive partnerships with specified state or federal job-training programs to receive state apportionment funding for students above 19 years of age.

Free Application for Federal Student Aid (FAFSA). The proposed budget requires LEAs to confirm that all high school seniors complete a FAFSA or California Dream Act Application beginning in the 2021-22 academic year.

Cradle-to-Career Data System. To support the continued development of the Cradle-to-Career Data System, the budget proposes $15 million General Fund ($3 million is one-time) to establish an office within the Government Operations Agency to provide support and resources for a data system and $3.8 million ongoing Proposition 98 General Fund to support the California Career Guidance Initiative (CCGI) which provides an interface for student data between high schools, students, and families that will be integrated into the Cradle-to-Career Data System.

Legislative Analyst's Office Analysis:

The LAO's recent publication, *The 2021-22 Budget: Overview of the Governor's Budget*, included an analysis of the Governor's Proposition 98 Proposals. The LAO notes that the budget reflects a reasonable mix of one-time and ongoing spending. Of the new spending specifically attributable to 2021-22, the budget allocates $2.6 billion for ongoing commitments and $2.9 billion for one-time activities. This one-time spending, combined with a $2.2 billion one-time deposit into the Proposition 98 Reserve, creates a budget cushion of $5.1 billion. 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 having a large one-time cushion seems especially important in 2021-22 given the continued and significant economic uncertainty due to the pandemic. In addition, the LAO notes that $2.3 billion of the total Proposition 98 funding allocated to schools in 2021-22 is supported with a one-time supplemental payment (the Governor's budget assumes no such additional payments are provided after 2021-22).

The LAO recommends that the Legislature allocate a larger share of the one-time funds for (1) paying down deferrals or (2) mitigating future cost increases related to pensions. Paying down deferrals would better position districts and the state to weather economic volatility by reducing pressure on future Proposition 98 budgets. Paying down future pension costs could help smooth out a notable increase in costs currently projected for 2022-23. Although taking these actions might mean somewhat less one-time funding is available for new programs in 2021-22, the LAO believes they would increase the likelihood that the programs districts do develop in the coming year can be sustained over time.

Suggested Questions:

- DOF: Given the significant one-time resources available, why does the Administration not propose to fully pay off deferrals?

- LAO: What fiscal pressures do you anticipate LEAs facing over the coming years? What can the state do in the short term to smooth out any fiscal uncertainty?

- DOF/LAO: Are there one-time investments included in the Proposition 98 package that federal funds could be used for?

Staff Recommendation: Hold Open.

Issue 3: Local Control Funding Formula (LCFF)

Panel:

- Lina Grant, Department of Finance
- Michael Alferes, Legislative Analyst's Office
- Elly Garner, 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 K-3 (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.

- **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). While the state typically annually adjusts the grant amounts by a cost-of-living adjustment (COLA); in the 2020-21 Budget Act, a COLA was not included for the LCFF due to estimates of a significant reduction in Proposition 98 funding due to the COVID-19 pandemic.

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:

While the state typically annually adjusts the grant amounts by a cost-of-living adjustment (COLA); in the 2020-21 Budget Act, a COLA was not included for the LCFF. The proposed budget provides a COLA of 3.84 percent (1.5 percent attributed to 2021-22 and 2.31 percent to reflect the foregone COLA in 2020-21), approximately $2 billion, for the 2021-22 fiscal year, bringing total LCFF funding to $64.5 billion.

The January budget also proposes policy changes to the multi-year nature of LCFF Supplemental and Concentration fund tracking. The Governor vetoed a bill that addressed this issue, AB 1835 (Weber) in September 2020. While the trailer bill language is not yet available, according to the DOF, the policy intent is to add additional oversight by County Offices of Education on the use of actions that satisfy the Minimum Proportionality Percentage (MPP) for Local Control and Accountability Plans that propose to expend less on actions to increase or improve services than their LCFF apportionment attributable to supplemental and concentration funds, and require a specific justification of how services are improved, and that dollars associated with unimplemented actions that are counted toward meeting the MPP be used for actions that meet the needs of unduplicated students in future years.

Suggested Questions:

- DOF/LAO: What estimates are available for out-year COLAs? Are these anticipated to meet rising costs for LEAs?

Staff Recommendation:

Hold Open

Issue 4: Federal Stimulus Funds

Panel:

- Melissa Ng, Department of Finance
- Elly Garner, Department of Education
- Amy Li, Legislative Analyst's Office

Background:

In response to the COVID-19 pandemic, the federal government has provided various allocations of stimulus funds.

2020-21 Budget Act: Federal Stimulus funds were also included in the 2020-21 budget specifically related to the K-12 Education Pandemic Response as follows:

- **Learning Loss Mitigatio**n. The budget appropriated a total of $4.8 billion in one-time federal funding ($4.4 billion federal Coronavirus Relief Fund (CRF) and $355.2 million federal Governor's Emergency Education Relief (GEER) Fund) and combined this with $540 million Proposition 98 General Fund for a total of $5.3 billion to address learning loss and other impacts of COVID-19. Of this total, $1.5 billion is allocated to LEAs, with the exception of non-classroom based charter schools, on the basis of the enrollment of students with exceptional needs (ages 3-22), $2.9 billion is allocated to LEAs, with the exception of non-classroom based charter schools, on the basis of the proportion of Supplemental and Concentration grant funding each LEA receives of the total statewide Supplemental and Concentration grant funding, and $980 million is provided to all LEAs in proportion to the amount of Local Control Funding Formula funding each LEA receives.

  Federal funds were required to be expended within specified federal time frames and funding must be used to directly support pupil academic achievement and mitigate learning loss related to COVID-19 school closures, including academic programs, services, and supports to address learning loss, extended instructional minutes and services, additional materials, including devices or internet connectivity, and other supports related to health, mental health, professional development, and school meals among others. Eligible uses may also include cleaning and safety measures for re-opening schools

  Of these funds, the CRF funds were available for broad pandemic relief efforts, but the above portion was provided for education specifically in the 2020-21 Budget Act. These funds originally had an expenditure deadline of December 30, 2020 and most LEAs reported already exhausting these funds by that timeline. According to the most recent CRF expenditure reports from the CDE, approximately 11 percent of LEA expenditures through December 2020 were on costs attributable to open school campuses (testing, PPE), and the majority of funds (59 percent) were spent on expenditures directly related to distance learning, including:

  - Technological improvements such as increasing broadband capacity.
  - Software purchases that enable distance learning.
  - Hardware purchases for students and/or teachers such as laptops and tablets.

    - Instructional materials necessary for distance learning.
    - Staff training /professional development necessary to provide quality distance learning.

  In recent federal legislation the deadline for expenditure of funds has been changed to May 31, 2021.

- **Other Resources:** LEAs also received $1.4 billion in federal Elementary and Secondary School Emergency Relief Fund (ESSER I) that were distributed directly based on federal Title I allocation formulas. The budget also included $159 million in ESSER I funds that the state had discretion to program and these were provided for community schools and school nutrition programs.

Additional Federal Funds. A second round of federal stimulus was enacted in December of 2020, specifically in regards to schools, the following is available in one-time funding:

- Elementary and Secondary School Emergency Relief Fund (ESSER II) to be distributed directly to schools on a Title I formula basis - $6.087 billion
- ESSER II Set-Aside Funds - $676 million for schools to be programmed through legislation.
- Discretionary GEER Funds - $157 million
- GEER Funds for Private Schools - $188 million

Finally, there may be additional federal funds for schools under the new President Biden administration in a new round of stimulus funding.

<u>Governor's Budget Proposal and Other Actions:</u>

The proposed budget did not include ESSER II or GEER funds from the recently enacted federal COVID-19 relief bill. These resources will assist schools in reopening and remaining open for in-person instruction and addressing the immediate needs of students. The Administration had indicated they would engage with the Legislature on the immediate allocation of these funds and need for any related legislation.

On January 19, 2021, the Department of Finance notified the Joint Legislative Budget Committee (JLBC), pursuant to the provisions of Section 28.00 of the 2020-21 Budget Act, of a request by the California Department of Education (CDE) to allocate the $6 billion in one-time ESSER II to schools in response to the COVID-19 pandemic. The letter requested a waiver from the 30-day legislative review period. The JLBC responded with approval on January 25, 2021, noting that the Legislature considers this funding as one part of a comprehensive package of federal and state resources to support schools in serving students during the COVID-19 pandemic and looks forward to continuing to work with the Administration on these issues.

The Governor's Budget also proposes trailer bill language to reflect the change in federal CRF deadlines from December 30, 2020 to May 31, 2021. LEAs with funds remaining are required to recertify by March 1, 2021 that funds shall be used by May 31, 2021. If LEAs do not certify use of the funds and do not ultimately expend funds be the deadline, trailer bill language would allow funds to be recovered and deposited into the CRF account and reallocated upon order of the Department of Finance.

Suggested Questions:

- DOF/LAO: Do you have suggestions on the best use of discretionary federal funds available under the December 2020 stimulus package?

- DOF: The Administration has said that federal funds complement their Re-Opening Schools proposal. However, federal ESSER funds have similar allowable uses for expenditure. How are we ensuring we are maximizing the use of both state and federal funds given then the many needs of schools and potential other uses of funds such as paying down deferrals or funding areas of specific need such as school nutrition, or special education?

- DOF: The trailer bill language proposed allows unspent CRF to be re-allocated by the Department of Finance. Does the Legislature have a say in the reallocation of funds under this proposal?

- CDE: Does the CDE have concerns that LEAs will be unable to use CRF by May 31, 2021?

Staff Recommendation:

Hold Open.

Issue 5: Expanded Learning Time and Academic Intervention Grants

Panel:

- Melissa Ng, Department of Finance
- Michael Alferes, Legislative Analyst's Office
- Elly Garner, Department of Education

Governor's Budget Proposal:

The Governor's Budget includes a proposal for $4.6 billion one-time Proposition 98 Funds that would be available for all LEAs for targeted interventions that focus on students from low-income families, English language learners, youth in foster care, and homeless youth, including for extending the school year, providing summer school, or other targeted strategies that address learning loss related to the pandemic, including community learning hubs.

Specifically funds would be allocated as follows:

- Eligible LEAs would receive $1,000 per each homeless pupil enrolled in 2020-21.
- The State Special Schools would receive $725 per average daily attendance.
- Remaining funds would be allocated to LEAs in proportion to their LCFF funding in 2020-21.

Funds would be available for expenditure through June 30, 2022. Funds must be used for activities that support academic achievement by expanding instructional time and providing targeted academic interventions, with priority for low-income students, English language learners, youth in foster care, homeless youth, students with disabilities, and pupils identified for tiered re-engagement strategies. Specifically funds shall be used for:

- Extended learning time through increasing the number of instructional days or instructional minutes provided during the school year, providing summer school or intersessional instructional programs, or other actions that increase instructional time or services for pupils.
- Accelerating progress to close learning gaps through the implementation, expansion, or enhancement of learning supports, such as 1) tutoring or one on one instruction, 2) learning recovery programs and materials, 3) educator training on accelerated learning or addressing learning gaps.
- Integrated pupil supports to address other barriers to learning (examples: health, counseling, mental health services, school meals, before and after school programs, supporting family needs, addressing trauma and social emotional learning).
- Community learning hubs to provide access to technology, high speed access, and other academic supports.
- Supports for credit deficient pupils to complete graduation or grade promotion requirements.
- Additional academic services, such as diagnostic assessments.
- Training for school staff on strategies to engage students and families in addressing students' social emotional health and academic needs.

As a condition of a receipt of funds, LEAs are required to adopt an addendum to their Local Control and Accountability Plan that describes how funds will be used in accordance with this section by June 1, 2021.

Legislative Analyst's Office Analysis:

In a recent post on their website (www.lao.ca.gov), *The 2021-22 Budget: Extended Learning and Academic Support*, the LAO reviews the Governor's proposal. The LAO notes that there is evidence that students need additional academic and other support services. They note that it is also reasonable to take some early action to allow schools enough time to plan for summer programming and for students and families to plan for participation in summer programs.

The LAO also notes that there is a significant amount of one-time funding for schools in the 2021-22 budget proposal. This proposal combined with the additional ESSER II funds would provide $10.6 billion in flexible one-time funds. The amount each LEA receives varies with the share of English Learner (EL) and Low-Income (LI) students. The chart below illustrates the variance.

Figure#

One-Time ESSER and Governor's Proposed Academic Support Funding

Median Per-Pupil Funding for School Districts, by Share of English Learners and Low-Income Students

District EL/LI Share	ESSER Round 2	Governor's Proposal	Total
0% -37.9%	$253	$615	$819
38% - 54.9%	524	646	1,140
55% - 77.2%	917	721	1,633
77.3% - 100%	1,455	782	2,210
Statewide	**$840**	**$718**	**$1,472**

ESSER = Elementary and Secondary Emergency Relief and EL/LI = Engish learner or low income.

Source: Legislative Analyst's Office

The LAO raises a few concerns:

- Given the uncertainty of planning around school re-opening, LEAs may have difficulty spending this large amount of funding over one year.
- In order to spend funds, LEAs may cover costs of activities they had already planned to conduct, not providing additional benefits to students.
- The effects of the pandemic on student learning and well-being are not likely to subside after one year. There may be greater benefit if funds can be spent over multiple years. And the proposal may create a cliff effect such that funds and service levels would drop in 2022-23.

The LAO specifically recommends that the state provide a smaller amount of one-time funding to address learning loss, using the Governor's methodology. Provide $1 billion for summer enrichment and academics and provide $500 million for in-person support activities during the school year, potentially allowing funds to be spent over a two year period. The LAO notes that this would free up one-time Proposition 98 funds for other purposes that increase stability for LEAs, such as paying down deferrals or addressing school district pension cost concerns.

Suggested Questions:

DOF: How was the total amount of funding arrived at? How much funding per pupil is anticipated? Did the Administration use any estimates to determine what amount of funding would be needed to begin addressing learning loss?

LAO/DOF: How should the state consider additional federal funds that can be used for learning loss as part of a comprehensive package?

DOF: Given the large amount of available one-time funds for potentially similar uses, has the Administration considered expanding the timeline for expenditure of learning loss funds to allow for summer strategies after the 2021-22 school year ends?

Staff Recommendation: Hold Open.

Issue 6: Fiscal Health of School Districts

Description:

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 presentation on the financial status of LEAs, including an update on the number of these agencies with negative and qualified certifications on the latest financial status reports and the status of state emergency loans.

Panel:

- Mike Fine, Chief Executive Officer, FCMAT

Background:

Assembly Bill 1200 (Eastin), Chapter 1213, Statutes of 1991, created an early warning system to help LEAs avoid fiscal crisis, such as bankruptcy or the need for an emergency loan from the state. The measure expanded the role of COEs in monitoring school districts and required that they intervene, under certain circumstances, to ensure districts can meet their financial obligations. The bill was largely in response to the bankruptcy of the Richmond School District, and the fiscal troubles of a few other districts that were seeking emergency loans from the state. The formal review and oversight process requires that the county superintendent approve the budget and monitor the financial status of each school district in its jurisdiction. COEs perform a similar function for charter schools, and the California Department of Education (CDE) oversees the finances of COEs. There are several defined "fiscal crises" that can prompt a COE to intervene in a district: a disapproved budget, a qualified or negative interim report, or recent actions by a district that could lead to not meeting its financial obligations.

Beginning in 2013-14, funding for COE fiscal oversight was consolidated into the Local Control Funding Formula (LCFF) for COEs. COEs are still required to review, examine, and audit district budgets, as well as annually notify districts of qualified or negative budget certifications, however, the state no longer provides a categorical funding source for this purpose.

AB 1200 also created FCMAT, recognizing the need for a statewide resource to help monitoring agencies in providing fiscal and management guidance. FCMAT also helps LEAs fulfill their financial and management responsibilities by providing fiscal advice, management assistance, training, and other related services. FCMAT also includes the California School Information Services (CSIS). LEAs and community colleges can proactively ask for assistance from FCMAT, or the Superintendent of Public Instruction (SPI), the county superintendent of schools, the FCMAT Governing Board, the California Community Colleges Board of Governors or the state Legislature can assign FCMAT to intervene or provide assistance. Ninety percent of FCMAT's work is a result of an LEA inviting FCMAT to perform proactive, preventive services, or professional development. Ten percent of FCMAT's work is a result of assignments by the state Legislature and oversight agencies to conduct fiscal crisis intervention. The office of the Kern County Superintendent of Schools was selected to administer FCMAT in June 1992.

Interim Financial Status Reports. Current law requires LEAs to file two interim reports annually on their financial status with the CDE. First interim reports are due to the state by December 15 of each fiscal year; second interim reports are due by March 17 each year. Additional time is needed by the CDE to certify these reports.

As a part of these reports, LEAs must certify whether they are able to meet their financial obligations. The certifications are classified as positive, qualified, or negative.

- A positive certification is assigned when an LEA will meet its financial obligations for the current and two subsequent fiscal years.
- A qualified certification is assigned when an LEA may not meet its financial obligations for the current and two subsequent fiscal years.
- A negative certification is assigned when an LEA will be unable to meet their financial obligations in the current year or in the subsequent fiscal year.

AB 1200 states the intent that the legislative budget subcommittees annually conduct a review of each qualifying school district (those that are rated as unlikely to meet their fiscal operations for the current and two subsequent years), as follows: "It is the intent of the Legislature that the legislative budget subcommittees annually conduct a review of each qualifying school district that includes an evaluation of the financial condition of the district, the impact of the recovery plans upon the district's educational program, and the efforts made by the state-appointed administrator to obtain input from the community and the governing board of the district."

First Interim Report. The first interim report has not yet been published by CDE. But preliminary data shoes that there are three LEAs with negative certifications, These LEAs will not be able to meet their financial obligations for 2020-21 or 2021-22, based on data generated by LEAs in Fall 2020, prior to release of the Governor's January 2021-22 budget. The first interim report also identified 51 LEAs with qualified certifications. LEAs with qualified certifications may not be able to meet their financial obligations for 2020-21, 2021-22 or 2022-23.

FCMAT notes that the first interim report includes estimates as of the 2020-21 budget act and does not reflect significantly changing fiscal conditions that are included in the Governor's proposal budget for 2021-22.

Second Interim Report. The second interim report, which covers the period ending January 31, 2021, is due March 17th.

State Emergency Loans. A school district governing board may request an emergency apportionment loan from the state if the board has determined the district has insufficient funds to meet its current fiscal obligations. Existing law states the intent that emergency apportionment loans be appropriated through legislation, not through the budget. The conditions for accepting loans are specified in statute, depending on the size of the loan. For loans that exceed 200 percent of the district's recommended reserve, the following conditions apply:

- The SPI shall assume all the legal rights, duties, and powers of the governing board of the district.

- The SPI shall appoint an administrator to act on behalf of the SPI.
- The school district governing board shall be advisory only and report to the state administrator.
- The authority of the SPI and state administrator shall continue until certain conditions are met. At that time, the SPI shall appoint a trustee to replace the administrator.

For loans equal to or less than 200 percent of the district's recommended reserve, the following conditions apply:

- The SPI shall appoint a trustee to monitor and review the operation of the district.
- The school district governing board shall retain governing authority, but the trustee shall have the authority to stay and rescind any action of the local district governing board that, in the judgment of the trustee, may affect the financial condition of the district.
- The authority of the SPI and the state-appointed trustee shall continue until the loan has been repaid, the district has adequate fiscal systems and controls in place, and the SPI has determined that the district's future compliance with the fiscal plan approved for the district is probable.

State Emergency Loan Recipients. Nine school districts have sought emergency loans from the state since 1991. The table below summarizes the amounts of these emergency loans, interest rates on loans, and the status of repayments. Five of these districts: Coachella Valley Unified, Compton Unified, Emery Unified, West Fresno Elementary, and Richmond/West Contra Costa Unified have paid off their loans. Four districts have continuing state emergency loans: Oakland Unified, South Monterey County Joint Union High (formerly King City Joint Union High), Vallejo City Unified, and Inglewood Unified School District. The most recently authorized loan was to Inglewood Unified School District in 2012 in the amount of $55 million from the General Fund and the California Infrastructure and Economic Development Bank (I-Bank). Of the four districts with continuing emergency loans from the state, Inglewood Unified School District is the only district under state administration and has a positive certification list at first interim in 2020-21. Oakland Unified School District continues to be on the qualified certification list in the first interim report in 2020-21.

Emergency Loans to School Districts
1990 through 2015

District	State Role	Date of Issue	Amount of State Loan	Interest Rate	Amount Paid	Pay Off Date
Inglewood Unified	Administrator	11/15/12 11/30/12 02/13/13	$7,000,000 $12,000,000 $10,000,000 $29,000,000 ($55 million authorized)	2.307%	$9,159,920	11/01/34 GF
South Monterey County Joint Union High (formerly King City Joint Union High)	Administrator	07/22/09 03/11/10 04/14/10	$2,000,000 $3,000,000 $8,000,000 $13,000,000	2.307%	$10,666,890	October 2028 I-bank
Vallejo City Unified	Administrator Trustee	06/23/04 08/13/07	$50,000,000 $10,000,000 $60,000,000	1.5%	$54,646,156	January 2024 I-bank 08/13/24 GF
Oakland Unified	Administrator Trustee	06/04/03 06/28/06	$65,000,000 $35,000,000 $100,000,000	1.778%	$95,467,720	January 2023 I-bank 6/29/26 GF
West Fresno Elementary	Administrator Trustee	12/29/03	$1,300,000 ($2,000,000 authorized)	1.93%	$1,425,773 No Balance Outstanding	12/31/10 GF
Emery Unified	Administrator Trustee	09/21/01	$1,300,000 ($2,300,000 authorized)	4.19%	$1,742,501 No Balance Outstanding	06/20/11 GF
Compton Unified	Administrators Trustee	07/19/93 10/14/93 06/29/94	$3,500,000 $7,000,000 $9,451,259 $19,951,259	4.40% 4.313% 4.387%	$24,358,061 No Balance Outstanding	06/30/01 GF
Coachella Valley Unified	Administrators Trustee	06/16/92 01/26/93	$5,130,708 $2,169,292 $7,300,000	5.338% 4.493%	$9,271,830 No Balance Outstanding	12/20/01 GF
West Contra Costa Unified (formerly Richmond Unified)	Trustee Administrator Trustee	08/1/90 01/1/91 07/1/91	$2,000,000 $7,525,000 19,000,000 $28,525,000	1.532% 2004 refi rate	$47,688,620 No Balance Outstanding	05/30/12 I-bank

Source: California Department of Education

Suggested Questions:

1) What trends does FCMAT see across the state for LEAs that need assistance in managing their financial responsibilities? What does FCMAT see as the most important challenge LEAs currently face?

2) One of FCMATs responsibilities is to complete audits of school districts in special circumstances as requested by county offices of education. Has the need for these type of audits changed over time?

3) What unique challenges are LEAs facing as they grapple with responding to the pandemic? What advice is FCMAT giving to districts about managing their budgets given the potential for large amounts of one-time funding in the budget year?

Staff Recommendation:

Information Only