Senate Budget and Fiscal Review—Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Richard D. Roth, Chair
Senator Connie M. Leyva
Senator Mike Morrell

Thursday, March 28, 2019
9:30 a.m. or upon adjournment of session
State Capitol - Room 3191

Consultant: Elisa Wynne

AGENDA

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6100 DEPARTMENT OF EDUCATION

School District Funding Background

In California, there are 944 elementary, high school or unified school districts. These school districts serve the majority of the state's approximately 6.2 million public school students. Students may also be served by county offices of education, charter schools, state special schools or in other unique settings.[1]

School district operations are funded with a variety of state General Fund, local property taxes, federal funds, and other local funds (e.g. parcel taxes, local bonds, etc.). Total General Fund provided for school districts is determined by the Proposition 98 formula, although additional amounts are provided outside of Proposition 98 for school facilities and the state's share of teacher pension liabilities. The amount of state funding for each individual school district is determined through the Local Control Funding Formula (LCFF). Under LCFF a funding amount per district is determined based on the number and characteristics of students. Local property taxes are applied to this amount and then General Fund is provided to make up the difference. School districts also receive Proposition 98 funding for other specific categories of educational services, such as special education and child nutrition. Since the passage of Proposition 13 in 1978, local property taxes cannot be raised to generate additional revenue for schools. However, depending on their need and local electorate, school districts may pass bonds to support facility needs and parcel taxes to supplement their operating revenues.

There are some school districts who receive very little state funding because they have significant local property tax revenue which more than covers their LCFF target funding levels. These districts are commonly known as "basic aid" districts as they receive limited amounts of state aid.

State funding for K-12 school districts has increased substantially over the past several years. The Legislative Analyst's Office (LAO) notes that the average per pupil amount provided for K-12 education in the 2018-19 budget is $11,645. Adjusted for inflation, this is the highest level of per-student funding since the passage of Proposition 98. In addition, this rate is approximately $1,000 per pupil, or nine percent, higher than the per pupil amount provided in 2007-08, the year prior to when funding levels were reduced due to the recession.[2]

The 2019-20 Governor's Budget estimates the Proposition 98 guarantee will reach $80.7 billion total in 2019-20, of which $71 billion is for K-12 education. This results in a Proposition 98 average per-pupil amount of $12,003 in 2019-20, or $17,160 if all fund sources are included.[3]

One marker that is commonly used to determine how well California is funding education is state-to-state comparisons. Several organizations compile this information, although they generally do not account for regional cost of living differences. Most recently, using 2016-17 data, the National Educational Association ranked California as the 32nd highest state for expenditures per average-daily-attendance (ADA) at $11,159 and as the 2nd highest state for average teacher salaries at $79,128.[4]

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[1] Ed-Data, California Education Data Partnership www.ed-data.org. 2017-18 data

[2] Legislative Analyst's Office, *The 2019-20 Budget: Proposition 98 Outlook.*

[3] Department of Finance, *Governor's Budget Summary 2019-20*.

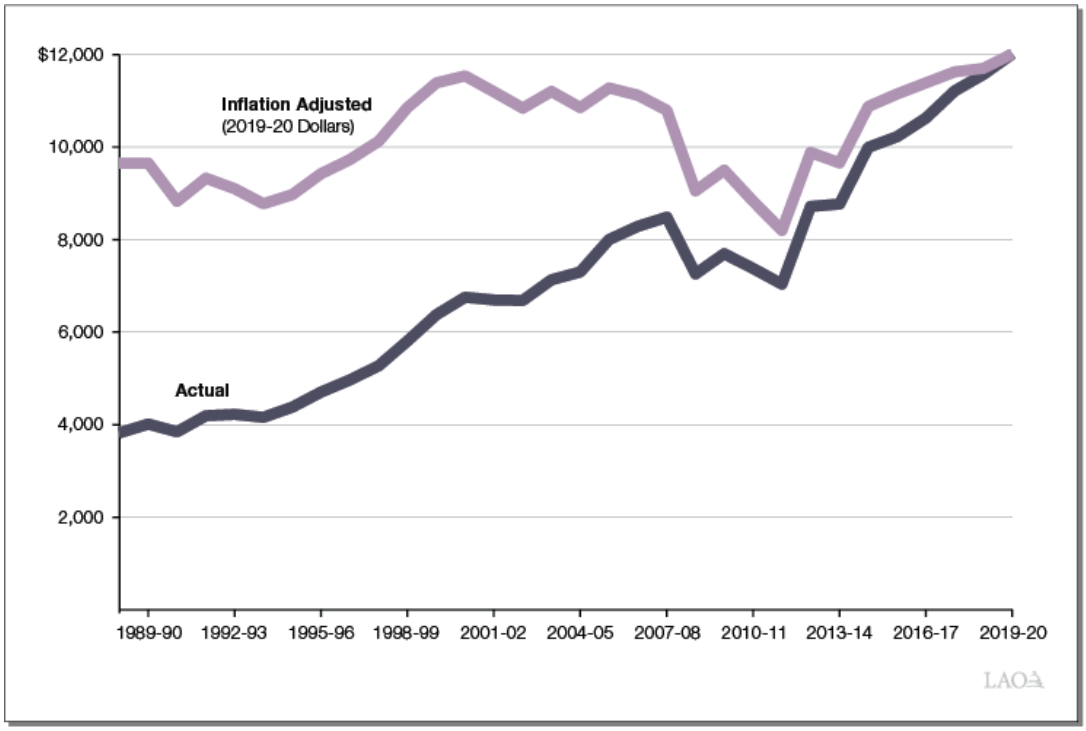
[4] National Educational Association, *Rankings of the States 2017 and Estimates of School Statistics 2018.*

Census data from 2016 ranks California as 28th among states for per-pupil amounts for spending on public elementary-secondary school systems. California has continued to invest in K-12 education over the last few years, which may not be fully reflected in this data from a few years ago.[5] The most recent cost-of-living adjusted ranking showed California as 41st in K-12 spending per student, but used 2015-16 data.[6] Since then, state funding for K-12 education has grown by $10 billion and per pupil funding has grown by over 17 percent.

The following chart shows K-12 Proposition 98 per pupil funding over time, reflecting the currently projected highest historical levels, as well as showing the impact of the great recession on K-12 education funding over several years.

K-12 Proposition 98 Funding Per Student Over Time

From Passage of Proposition 98 (1988) Through 2019-20 Under the Governor's Budget



Source: Legislative Analyst's Office

School District Cost Pressures

Despite large increases in Proposition 98 funding and changes in the distribution of new revenues through the passage of LCFF, school district finances and fiscal health can vary due to unique local needs, student population, regional cost differences, and the ability to raise additional local funding. School districts generally cite insufficient "base" LCFF funding, declining enrollment, costs of

[5] Census Public Education Finances: 2016, Per Pupil Amounts for Current Spending of Public Elementary-Secondary School Systems by State: Fiscal Year 2016

[6] Kaplan, Jonathan, *California's Support for K-12 Education Is Improving, but Still Lags the Nation.* California Budget and Policy Center.

providing special education and annual increases to the employer share of the California State Teachers Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) as creating the largest cost pressures for their budgets.

Local Control Funding Formula. The biggest driver of school district budgets is the LCFF through which school districts receive the bulk of their operating funding. The LCFF was enacted in 2012-13 and has grown by $22 billion to a total of $61 billion in 2018-19. The LCFF was fully funded in 2018-19, meaning school districts and charter schools reached their LCFF target amounts. Pursuant to LCFF statute, in future years school district LCFF amounts will be adjusted for growth and cost-of-living (COLA). While the growth in LCFF since 2012-13 is very significant, much of this growth was building back from deep cuts in education due to the recent recession years. In addition, LCFF distributed funding to districts based on a new formula, one that awards more funding to school districts with high numbers and concentrations of low-income, foster youth, and English-learner students. The change to the LCFF therefore had a distributional effect; while all districts receive a "base" grant per student, some districts generate additional funding based on student characteristics. According to the LAO, districts who received the largest LCFF funding experienced growth of 70 percent or more per student, while those that received the smallest LCFF funding amounts generally experienced growth of around 20 percent per student.[7] This distributional effect was intentional, to provide additional funding to support the neediest students; however, some school districts have voiced concerns that the LCFF base grant is not enough to cover the costs of educating a student. In response to these concerns, the 2018-19 Budget Act included an additional $570 million to effectively increase the base grant upon which future COLAs will be calculated.

Employee Salaries and Benefits. The majority of school district general fund expenditures are for employees. Specifically, in 2016-17, over 84 percent of district general fund expenditures were for salaries and benefits for classified and certificated staff. Remaining general fund expenditures cover books, supplies, services, and other operations.[8] As the state built back funding for K-12 education from the low point of the recession, school districts primarily used this funding to build back their staffing. According to the LAO, school districts increased the average salary and benefits for a teacher by 5.9 percent and increased the number of teachers by about eight percent between 2012-13 and 2017-18.

In addition, in response to concerns about a growing unfunded pension liability, a policy change in 2014-15 required school districts to begin paying more for the employer share of pension liability under CalSTRS. In 2013-14, districts paid 8.3 percent of payroll into CalSTRS. The 2014-15 budget agreement included scheduled increases each year, reaching 19.1 percent in 2020-21 (an increase of almost $3.4 billion in 2020-21 compared to 2013-14). In 2018-19, school districts are paying 18.1 percent of payroll. After 2020-21, the CalSTRS board is able to increase contribution rates by up to one percent per year, up to 20.25 percent. School districts also participate in CalPERS, which has the authority to adjust employer rates based on investment and actuarial policies. The state's Fiscal Crisis and Management Assistance Team (FCMAT) describes increases in CalSTRS and CalPERS as "the greatest single fiscal challenge facing most [local educational agencies]".[9]

[7] Legislative Analyst's Office, *The 2019-20 Budget: Proposition 98 Outlook.*

[8] Ed-Data, California Education Data Partnership www.ed-data.org. 2017-18 data

[9] FCMAT, *Annual Report 2017-18*

Finally, according to the LAO, in addition to pension benefits, about two-thirds of school districts provide health benefits for their retired employees and due to deferred payments school districts have accumulated an unfunded liability of approximately $24 billion statewide. Most school districts that offer retiree health benefits have at least some unfunded liability, and the largest share is concentrated among about a dozen large school districts.[10]

Special Education. "Special education" describes the specialized supports and services that schools provide for students with disabilities under the provisions of the federal Individuals with Disabilities Education Act (IDEA). Federal law requires schools to provide "specially designed instruction, and related services, at no cost to parents, to meet the unique needs of a child with a disability." The law requires the provision of these special support services to students with exceptional needs from age 0 until age 22, or until they graduate from high school with a diploma. State and federal special education funding in California totals over $4 billion annually. Funding is allocated to school districts primarily using a census model; a per pupil amount is provided based on the total enrollment of the school district, regardless of the number of students with disabilities. Due to historical factors, these per pupil rates vary across the state by school district. California's model for serving special education services reflects that school districts first use their LCFF funds to meet the needs of all students, including those with disabilities, and then use a combination of state and federal special education funding, and finally other local general purpose funds to cover the costs of additional services students with disabilities may need. While it is difficult to measure the amount of additional resources school districts provide from other areas of their budget for special education, according to a recent report by the Public Policy Institute of California, state and federal funding cover approximately 40 percent of the cost of special education, with school districts covering the remaining costs from other fund sources.[11] In recent years, the costs of special education have risen due to higher numbers of students with disabilities identified and, similar to general education, rising salary and benefit costs for teachers of special education students.

Declining Enrollment. Another factor that has implications for both statewide funding of K-12 education, as well as profound implications for local school district budgets, is the number of students served. At the local level, school districts generate funding under LCFF and other programs primarily based on the number of students enrolled in and attending school. When there are declines in school-age population, usually due to changing demographics of a region, school district budgets are impacted. Current law slows the impact by using the greater of current or prior year average-daily-attendance (ADA) when calculating LCFF funding. This "hold harmless" is intended to provide school districts additional time to make budget reductions in response to ADA changes. While some areas of the state face significant declining enrollment, conversely other areas are seeing growth as school-age children and families move into their regions. Finally, some areas are experiencing declines in enrollment as more students are served by charter schools in the region. Statewide K-12 attendance projections from the Department of Finance (DOF) show a slow decline in K-12 attendance over the next few years. DOF uses estimates of births and migration to inform their attendance projections. In addition, statewide K-12 ADA is a component of the Proposition 98 Guarantee calculation. Similar to the school district hold harmless, the Proposition 98 Guarantee calculation includes a two-year hold harmless against declines in ADA. However, a continued trend of declining statewide enrollment may result in lower Proposition 98 Guarantee levels in future years and lower amounts of "guaranteed" state funding for K-12 education.

[10] Legislative Analyst's Office, *The 2018-19 Budget: Proposition 98 Analysis.*

[11] Hill, Laura, *Special Education Finance in California,* Public Policy Institute of California, November 2016

While the above section describes the most common cost pressures districts cite as impacting their budgets, they are by no means the only challenges districts face. In addition, each district has their own set of local needs and resources, as well as their own local collective bargaining agreements, which influence their fiscal status.

School District Budgeting and Oversight Background

Historically, the Superintendent of Public Instruction stepped in to provide emergency loans and oversee school districts in fiscal distress. According to the LAO, between 1979 and 1991, 26 school districts requested and received emergency loans of varying amounts. However, that historical process was revised with legislation passed in the early 1990's following the bankruptcy of the Richmond Unified (West Contra Costa) School District. These laws have been updated as needed in response to changing statewide conditions in subsequent years, including:

- AB 1200 (Eastin), Chapter 1213, Statutes of 1991, increased the responsibilities for county offices of education in overseeing the fiscal health of their school districts (reviewing and approving school district budgets) and created FCMAT to support school districts and county offices of education, as well as provide fiscal crisis intervention services.

- As a response to the need for emergency state loans by several school districts, in 2004 the process for fiscal oversight was updated through AB 2756 (Daucher), Chapter 52, Statutes of 2004, which added additional structure for the oversight and monitoring of school districts that obtain emergency state loans.

- Most recently, initiated by the failure of Inglewood Unified School District to make meaningful progress towards fiscal and governance stability under state oversight, AB 1840 (Committee on Budget), Chapter 426, Statutes of 2018, increased the role of county offices of education in overseeing fiscal health and monitoring trustees and administrators, and provided FCMAT with a greater role in working with school districts at risk of fiscal crisis.

Current School District Budget and Fiscal Crises Processes:

Annual Budget Review and Adoption. Each school district must meet specified deadlines for adopting a budget and engaging with their county office of education for budget approval. The requirements are as follows:

- On or before July 1 of each year, a school district must adopt a budget and a Local Control and Accountability Plan (LCAP) that ties to their budget, and submit the budget and LCAP to the county office of education.

- The county office of education reviews the budget for meeting state-adopted standards and criteria, the school district's ability to meet financial commitments for the subsequent two years, and the school district's LCAP.

- The county office of education may approve, conditionally approve, or disapprove a school district's budget by September 15th

- If a budget is disapproved, or conditionally approved, the county office of education provides recommendations and the school district must respond by October 8th.

- If a school district fails to adopt a budget, a county office of education may adopt one for the school district.

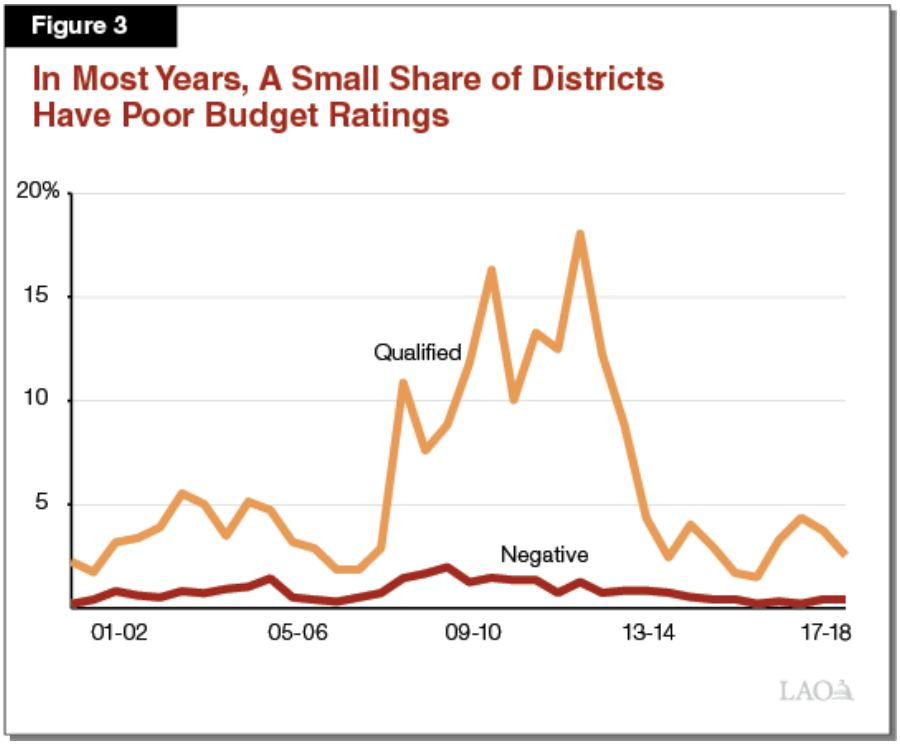
- School districts must file two interim reports annually on their financial status with the California Department of Education (CDE), in which school districts must certify whether they are able to meet their financial obligations. The certifications are classified as positive, qualified, or negative.

- The county office of education is required to provide tiered interventions for school districts with qualified or negative interim reports. The county office of education is required to provide additional oversight and review of school district financial decisions and may limit the district's ability to issue debt. In addition, a negative status may result in a fiscal advisor or the county superintendent exercising stay and rescind powers over a local governing board. Finally for either a qualified or negative status, the county superintendent has a role in the collective bargaining process.

- School districts are required to provide the county office of education with any evidence of fiscal distress (i.e reports, audit findings, etc).

- FCMAT is required to provide a fiscal health risk analysis for a school district showing specific signs of being at financial risk (i.e. disapproved budget, negative interim report, etc). FCMAT works with the county office of education fiscal oversight process when providing this report.

The chart below shows historical trends for districts showing signs of fiscal distress. In recent years, the number of negative certifications in the second interim peaked in 2008-09 at 19, while the number of qualified certifications peaked in 2011-12 at 176.



Source: Legislative Analyst's Office

State Emergency Loans. When a school district is unable to meet its current obligations during the school year it may request an emergency loan from the state. Separate legislation has historically been used to provide an emergency loan appropriation from the state. Conditions for the loan are included in the authorizing statute, however, legislative intent language notes the following:

- Statutory recommendations for loans above 200 percent of a school district's reserve include: waiving the local governing board's authority and the appointment of an administrator by the County Superintendent of Schools, with the concurrence of the State Board of Education and the Superintendent of Public Instruction. The county superintendent oversees the administrator, who remains in place until specified conditions are met.

- Statutory recommendations for loans up to or at 200 percent of a school district's reserve include: the appointment of a trustee by the County Superintendent of Schools, the State Board of Education, and the Superintendent of Public Instruction. The local governing board retains governing authority, but the trustee has the authority to stay and rescind actions of the governing board. The trustee remains in place until the State Superintendent of Public Instruction determines that the district has the ability to follow the approved fiscal plan. The county superintendent retains some stay and rescind powers until the emergency loan has been repaid.

2018-19 Process Changes. For all school districts that are currently in, or may in the future enter into, fiscal distress, the 2018 budget act included the following specific changes:

- Assigned authority to appoint a trustee or state administrator for school districts who are in fiscal distress and receive an emergency loan from the state to the school district's county superintendent, the State Superintendent of Public Instruction, and the president of the State Board of Education.

Previously, the Superintendent of Public Instruction had sole authority to appoint a trustee or administrator.

- Required the appointed administrators to serve under the supervision and direction of the county superintendent, in concurrence with the Superintendent of Public Instruction and the president of the State Board of Education. Previously, the Superintendent of Public Instruction assumed the authority and rights of the governing board of the school district, and supervised and directed the administrator.

- Automatically qualified school districts in state receivership for state intervention within the K-12 school accountability system, to allow school districts in receivership to access technical assistance for student performance and district management from the California Collaborative for Educational Excellence (CCEE).

- Required FCMAT to do an annual progress review of: (1) the fiscal recovery of school districts in state receivership, and (2) the effectiveness of county office of education oversight. Required FCMAT to complete a fiscal health risk analysis of school districts at risk of fiscal distress based on specified triggers.

Legislation Addressing Inglewood Unified and Oakland Unified School Districts. Legislation AB 1840 accompanying the 2018-19 Budget Act, included an agreement to provide appropriations for the Oakland Unified School District and Inglewood Unified School District for each of the 2018-19 through the 2021-22 fiscal years if specified fiscal and governance benchmarks are met each year.

This agreement was specific to the Oakland Unified School District and Inglewood Unified School District as both of these districts had their governing powers assumed by the state and received emergency state loans in the past. Despite these efforts, without additional fiscal and governance intervention, the students in these districts would be unfairly impacted. Inglewood Unified School District has been under the control of an Administrator since 2012 and has an outstanding emergency loan balance of approximately $24.3 million, with an anticipated repayment date of 2034. Oakland Unified School District is currently overseen by a Trustee (who was initially assigned an Administrator in 2003) and has an outstanding emergency loan balance of approximately $34 million with an anticipated repayment date of 2026.

For the 2018-19 fiscal year, the Oakland Unified School District is required to develop short and long-term financial plans and update school district facilities plans to be aligned with their plans for fiscal solvency. In 2018-19, Inglewood Unified School District is required to meet the requirements for qualified or positive certification and complete comprehensive operational reviews of the district, as specified.

For the 2019-20 fiscal year, the intent is that the final budget will include appropriations for the Oakland Unified School District and Inglewood Unified School District, if the specified requirements for 2018-19 are met. Funds will be continue to be allocated to the Oakland Unified School District and Inglewood Unified School District, if specified benchmarks are met each year, in the following amounts:

  - For the 2019-20 fiscal year, up to 75 percent of the school district's projected operating deficit.

- For the 2020-21 fiscal year, up to 50 percent of the school district's projected operating deficit.
- For the 2021-22 fiscal year, up to 25 percent of the school district's projected operating deficit.

FCMAT, with concurrence of the appropriate county office of education, shall certify to the Legislature and DOF that specified benchmarks have been met prior to allocating the state funding. FCMAT shall report to the Legislature and DOF on the district's progress in meeting the benchmarks included in the prior year Budget Act by March 1st of each year, until March 1, 2021.

Additional provisions were made to allow school districts with emergency apportionment loans as of July 1, 2018 (Oakland Unified, Inglewood Unified, South Monterey County Joint High School, and Vallejo Unified), when selling or leasing surplus property, until the emergency loan is repaid, to use the proceeds from the sale or lease of the surplus property to reduce, retire, or service outstanding emergency apportionment loan debt.

Issue 1: Update on K-12 School District Fiscal Health (Information Only)

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.

AB 1840 (Committee on Budget), Chapter 426, Statutes of 2018 included new requirements for FCMAT. These requirements including an annual progress review of: (1) the fiscal recovery of school districts in state receivership, and (2) the effectiveness of county office of education oversight. Finally, FCMAT is required FCMAT to complete a fiscal health risk analysis of school districts at risk of fiscal distress based on specified triggers.

Legislation Addressing Inglewood Unified and Oakland Unified School Districts. Legislation AB 1840 accompanying the 2018-19 Budget Act, included an agreement to provide appropriations for the Oakland Unified School District and Inglewood Unified School District for each of the 2018-19 through the 2021-22 fiscal years if specified fiscal and governance benchmarks are met each year.

The office of the Kern County Superintendent of Schools was selected to administer FCMAT in June 1992. The Governor's 2018-19 budget maintains funding for FCMAT at $5.3 million Proposition 98 General Fund for FCMAT functions and oversight activities related to K-12 schools and $570,000 for FCMAT to provide support to community colleges.

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 was published by CDE in February 2019 and identified five LEAs with negative certifications. These LEAs will not be able to meet their financial obligations for 2018-19 or 2019-20, based on data generated by LEAs in Fall 2018, prior to release of the Governor’s January 2019-20 budget. The first interim report also identified 42 LEAs with qualified certifications. LEAs with qualified certifications may not be able to meet their financial obligations for 2018-19, 2019-20 or 2020-21.

Second Interim Report. The second interim report, which covers the period ending January 31, 2019, has not been verified and released by CDE at this time.

Negative Certification	
First Interim Budget Certifications	
County:	District:
Amador	Amador County Office of Education
Butte	Feather Falls Union Elementary
Kern	Southern Kern Unified
Sacramento	Sacramento City Unified
San Diego	Sweetwater Union High

Qualified Certification	
First Interim Budget Certifications	
County:	District:
Alameda	Newark Unified
Alameda	Oakland Unified
Alameda	Piedmont City Unified
Amador	Amador County Unified
Calaveras	Calaveras Unified
Contra Costa	Pittsburg Unified
El Dorado	Camino Union Elementary
El Dorado	Gold Trail Union Elementary
Humboldt	Klamath-Trinity Joint Unified
Kern	Lost Hills Union Elementary
Kern	North Kern Vocational Training Center
Los Angeles	Burbank Unified
Los Angeles	Duarte Unified
Los Angeles	Glendale Unified
Los Angeles	Inglewood Unified
Los Angeles	Los Angeles Unified
Los Angeles	Monrovia Unified
Marin	Larkspur Corte-Madera Elementary
Napa	Pope Valley Union Elementary
Placer	Placer Hills Union Elementary
Riverside	Alvord Unified
Riverside	Coachella Valley Unified
Riverside	Riverside Unified
Sacramento	Robla Elementary
San Bernardino	Yucaipa-Calimesa Joint Unified
San Diego	Bonsall Unified
San Diego	Mountain Empire Unified
San Diego	Oceanside Unified
San Diego	San Ysidro Elementary
San Luis Obispo	Paso Robles Joint Unified
San Mateo	Cabrillo Unified

San Mateo	San Carlos Elementary
Santa Clara	Alum Rock Union Elementary
Santa Clara	Berryessa Union Elementary
Santa Clara	Franklin-McKinley Elementary
Shasta	Cascade Union Elementary
Shasta	Gateway Unified
Solano	Vallejo City Unified
Sonoma	Cotati-Rohnert Park Unified
Sonoma	West Sonoma County Union High
Sonoma	West Sonoma County Union High
Tulare	Terra Bella Union Elementary
Tuolumne	Curtis Creek Elementary

Source: California Department of Education

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 and Oakland Unified School District are on the qualified certification list in the first interim report in 2018-19.

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%	$7,327,936	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%	$8,694,543	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%	$47,479,988	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%	$83,496,846	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

*Note that as part of the 2018-19 budget agreement, the November 2018 loan payment for Inglewood Unified was deferred and the pay-off date was extended by one year to November 1, 2034.

Source: California Department of Education

Current State of School District Finances. Under the changes to the school district budget oversight process in the 2018-19 budget, FCMAT is required to provide a fiscal health risk analysis for a school district showing specific signs of being at financial risk (i.e. disapproved budget, negative interim report, etc). From July 1, 2018 to January 1, 2019, FCMAT has performed fiscal health risk analyses for the Calaveras Unified School District, the Sacramento City Unified School District, and the Sweetwater Unified School District and is currently working on analyses for other school districts. In addition, FCMAT continues to be engaged in both Inglewood and Oakland Unified School Districts. School district second interim reports for 2018-19 were due in March and are not yet certified. Notably, Los Angeles Unified School District, which recently reached a contract agreement with labor partners, continues to be of concern with a significant projected operating deficit in 2021-22. In all cases, county offices of education are engaging with school districts to provide fiscal oversight and support.

AB 1840 Requirements. AB 1840 established a system for both Inglewood and Oakland Unified School Districts to meet benchmarks established in the prior budget year in order to receive financial support in the state budget. As part of this system, FCMAT is required to report, in concurrence with the appropriate county office of education, on March 1 of each year to the Assembly Committee on Budget, the Senate Committee on Budget and Fiscal Review, and the Department of Finance on the progress that Inglewood and Oakland Unified School Districts have made towards established benchmarks and recommendations for appropriate benchmarks for the budget year.

Inglewood Unified School District. AB 1840 detailed that Inglewood Unified School District was required to do the following for 2018-19:

- Meet the requirements for qualified or positive certification for the school district's second interim report.

- Complete comprehensive operational reviews that compare the needs of the school district with similar school districts and provide data and recommendations regarding changes the school district can make to achieve fiscal sustainability.

FCMAT's March 1st report on Inglewood Unified School District notes that the first interim report showed the district as qualified and includes assumptions about funding support from the state through the AB 1840 process to meet reserve requirements in 2019-20 and 2020-21. In addition, the state trustee approved a contract for an organizational, efficiency, and comparative staffing review and a pupil transportation review. The district has also adopted a fiscal stabilization plan and has made progress on some portions.

Oakland Unified School District. AB 1840 detailed that Oakland Unified was required to do the following for 2018-19:

- Update or develop short- and long-term financial plans based on reasonable and accurate assumptions and current and past year expenditure data.

- Review and update school district facilities construction plans to ensure that costs are reasonable, accurate, and align with long-term financial plans for fiscal solvency

FCMAT's March 1st report on Oakland Unified School District notes that the district self-certified as positive at the first interim report, however the Alameda County Office of Education downgraded the district to a qualified certification, in part because of lack of detail about calculations and assumptions used in the first interim report. FCMAT notes that the district reached a tentative collective bargaining agreement with the Oakland Education Association and that the district and FCMAT are still analyzing the impact of the agreement. In addition, some work has been done on school district facilities planning, including the development of a Citywide Plan on school facilities. The Citywide Plan was adopted by the Oakland Unified School District on March 20, 2019.

Governor's Budget Proposal

The Governor did not include appropriations for Oakland and Inglewood Unified School Districts in the January Budget as information related to the school districts' actions and fiscal status was not available at that point in time.

Suggested Questions:

1) How have the requirements of AB 1840 changed FCMAT's work and their relationships with school districts and county offices of education?

2) When looking historically, how does the financial position of most school districts in the state compare to other points in the past?

3) Can FCMAT make recommendations on what the amount of Oakland and Inglewood Unified School Districts' projected operating deficits will be for 2019-20 at this point in time?

4) For Oakland and Inglewood Unified School Districts what are FCMAT's recommendations for appropriate benchmarks during the 2019-20 fiscal year?

5) In the March 14th hearing the subcommittee heard from the California Collaborative for Educational Excellence on their work related to AB 1840. How has FCMAT collaborated with CCEE in Oakland, Inglewood and any other school district?

Staff Recommendation: Information only.

Issue 2: Research Perspectives on School District Fiscal Pressures (Information Only)

Description:

In 2018, *Getting Down to Facts II (GDTFII)*, a collection of studies on California's K-12 education system was released. This project was a follow-up to a similar compilation of research in the K-12 area in 2005; *Getting Down to Facts*. The 36 research studies in GDTFII covered a wide range of K-12 education policy, governance, and funding issues and ultimately noted that California's K-12 system still needs to build capacity to support major reforms undertaken in the last decade, achievement gaps still exist and significant efforts are needed in this area, and finally that while funding levels have increased for K-12 education, there is still a need for additional investments and many critical funding issues remain to be addressed. This panel will focus on the latest research in areas that are critical to the fiscal health and stability of school districts.

Panel:

- Adequacy and State Funding Formulas: **Dr. Jesse Levin**, Principal Research Economist, American Institutes for Research
- Pensions and California Public Schools: **Dr. Cory Koedel**, Associate Professor of Economics and Public Policy at the University of Missouri
- Revising Finance and Governance Issues in Special Education: **Paul Warren**, Research Associate at the Public Policy Institute of California
- Employee and Retiree Health Benefits: **Paul Bruno**, Ph.D. candidate at the University of Southern California's Rossier School of Education

Staff Recommendation: Information Only.

Issue 3: CalSTRS Pension Proposal (Information Only)

Panel:

- Aaron Heredia, Department of Finance
- Rick Reed, CalSTRS Actuary
- Kenneth Kapphahn, Legislative Analysts' Office

Background:

The California State Teachers' Retirement System

CalSTRS is governed by the Teachers' Retirement Board, which is composed of eight members and four ex-officio members. The California Constitution provides the Teachers' Retirement Board authority over the administration of the retirement system. CalSTRS provides pension benefits, including disability and survivor benefits, to California's full-time and part-time public school teachers from pre-kindergarten through community college and certain other employees of the public school system. As of June 30, 2018, there are approximately one million members, retirees, and beneficiaries of the State Teachers' Retirement Plan (STRP) Defined Benefit Program.

CalSTRS administers a defined benefit plan, two defined contribution plans, a post-employment benefit plan, and a fund used to account for ancillary activities associated with various deferred compensation plans and programs, including: (1) STRP, (2) CalSTRS Pension Program, (3) Teachers' Health Benefits Fund, and (4) Teachers' Deferred Compensation Fund.

CalSTRS does not provide health or dental insurance coverage as they are collectively bargained at the local school district level. Each district has its own policies. Existing law requires school districts, community colleges and county offices of education to offer retiring CalSTRS members and their spouses or registered domestic partners the opportunity to continue their medical and dental insurance at their own cost.

CalSTRS Budgeted Expenditures and Positions
(Dollars in Millions)

	2017-18	2018-19	2019-20
Service to Members and Employers	$382.0	$604.8	$571.6
Corporate Governance	$4.8	$36.2	$34.7
Benefit Payments	$14,462.5	$15,822.7	$16,759.1
Positions	1,134	1,294	1,313

Prior to 2014, CalSTRS faced a large unfunded liability with no plan in place to fund teachers pensions, and CalSTRS was expected to exhaust its assets in the mid-2040s. The state adopted a funding plan, described below, to fully fund the system by 2046. Currently, the overall unfunded liability for CalSTRS is $103.5 billion (of which the state's share is $35.3 billion). As of June 30, 2017, the funded status for CalSTRS was 64 percent, respectively, meaning the retirement systems only have approximately two-thirds of the funds required to make pension payments to retirees.

Assembly Bill 1469 (Bonta), Chapter 47, Statute of 2014, CalSTRS Funding Plan to Address Large Unfunded Liability. AB 1469 was adopted as a part of the 2014-15 budget, which set CalSTRS on a path towards full funding by 2046. Specifically, the plan phased in contribution rate increases for the state, employers and employees. The plan gives the board limited authority to adjust the employer and state contribution rates.

District Contribution Rate. AB 1469 set the district contribution rate through 2020-21 in statute. The rate in 2018-19 has reached 16.3 percent, with increases to 18.3 percent in 2019-20, and 19.1 percent in 2020-21. After 2020-21, CalSTRS can increase or decrease the rate by up to one percentage point per year; however, existing law states that the total district rate cannot exceed 20.25 percent. Current projections show the rate leveling off in 2020-21 and falling to 18.4 percent for 2021-22 and future years.

The chart from the Legislative Analyst's Office (LAO) below displays the projected CalSTRS contribution rates.

CalSTRS Projected Contribution Rates
(As a Percentage of Payroll, May 2018 Projections)

Year	District[a]	State[b]	Employees (Pre-PEPRA)[c]	Employees (PEPRA)[d]
2017-18	14.4%	9.1%	10.3%	9.2%
2018-19	16.3%	9.6%	10.3%	10.2%
2019-20	18.1%	10.1	10.3%	10.2%
2020-21	19.1%	10.6%	10.3%	10.2%
2021-22	18.6%	11.1%	10.3%	10.2%
2022-23	18.1%	11.6%	10.3%	10.2%

[a] Reflects statutory rate through 2020-21 and CalSTRS' projections thereafter.

[b] Reflects actual rate through 2018-19 and CalSTRS' projections thereafter. State contribution rate is based on payroll from the second preceding year. For example, the 2018-19 rate is applied to actual 2016-17 payroll. Includes roughly 2.5 percentage points related to a program that protects retirees' pensions from the effects of inflation.

[c] Reflects fixed statutory contribution rate for employees hired before January 1, 2013.

[d] Reflects actual rate through 2018-19 and CalSTRS' projections thereafter.

CalSTRS Unfunded Liability. The state is responsible for the share of the unfunded liability that would exist today if no changes had been made to benefits or contributions since 1990, and districts are responsible for the unfunded liability created by changes to pension benefits and contribution rates adopted after 1990, but only for benefits earned through 2013-14.

CalSTRS interprets the law so that district and state shares of the unfunded liability will change annually based on a complex formula. Specifically, the formula is based on a hypothetical unfunded liability calculated by estimating what the defined benefit program's assets and liabilities would be today if the benefit improvements had never occurred after July 1, 1990, and if contributions to the pension fund had not been decreased. Under this formula, the calculations show that CalSTRS' unfunded liability would be smaller today. In general, the state will pay for these smaller theoretical

unfunded liabilities, while the districts pay for the difference between the real world unfunded liabilities and the state's share. Because districts pay for the balance, the district share will increase when the state share decreases or vice versa. As a result, the state's share of the unfunded liability and the contribution rate is very sensitive to investment volatility.

Responsibility for a small amount of the unfunded liability that is associated with changes made after 1990 for benefits earned after 2013-14 remains unassigned to either the state or districts. As of June 30, 2018, CalSTRS estimates this to be approximately $200 million, and is expected to grow to about $1 billion by 2046. The funding formula does not include a mechanism for funding this unassigned unfunded liability.

Discount Rate. In February 2017, the CalSTRS board adopted changes to investment return assumptions over a two-year period. Specifically, for the June 30, 2016 actuarial valuation, the discount rate decreased from 7.50 to 7.25 percent, and for the June 30, 2017 actuarial valuation, the discount rate decreased from 7.25 to 7 percent.

Reporting Requirement. AB 1469 also requires CalSTRS to report to the Legislature on or before July 1, 2019, and every five years thereafter, on the fiscal health of the Defined Benefit Program and the unfunded actuarial obligation with respect to service credited to members of the program before July 1, 2014. The report must identify adjustments required in contribution rates in order to eliminate, by June 30, 2046, the unfunded actuarial obligation of the Defined Benefit Program with respect to service credited to members of the program before July 1, 2014.

Governor's Proposal:

Districts' Share of CalSTRS Unfunded Liability. To reduce the districts' share of the CalSTRS unfunded liability, the Governor proposes for the state to pay CalSTRS an additional $2.3 billion General Fund, also attributed to 2018-19. CalSTRS estimates this would reduce rates over the long term by approximately .5 percent beginning in 2020-21.

CalSTRS District Contribution Rates. The Governor proposes providing $700 million General Fund over the next two years ($350 million per year) to provide school and community college districts with immediate budget relief. Specifically, the funds would reduce districts' CalSTRS rates in 2019-20 and 2020-21 by approximately one percent —freeing up resources for other parts of districts' operating budgets.

The Administration's chart below displays the impact of the supplemental payment towards the employer's contribution rate.

Supplemental Pension Payments to CalSTRS—School Employer Liability Share Estimated Impact					
	Current		With Supplemental Pension Payment		
Fiscal Year	Employer Contribution Rate	Employer Contribution (in Millions)	Employer Contribution Rate	Employer Contribution (in Millions)	Savings from Supplemental Pension Payment (in Millions)
2019-20	18.13%	$ 6,277	17.10%	$ 5,927	$ 350
2020-21	19.10%	$ 6,844	18.10%	$ 6,494	$ 350
2021-22	18.40%	$ 6,837	17.90%	$ 6,641	$ 196
2022-23	18.40%	$ 7,047	17.90%	$ 6,883	$ 164
2023-24	18.40%	$ 7,301	17.90%	$ 7,131	$ 170
Total Savings—2019-20 through 2023-24					$ 1,230
Total Savings—2024-25 through 2045-46					$ 5,691
Total Savings—2019-20 through 2045-46					$ 6,921

Note: The employer contribution rate, with and without the impact of the supplemental pension payments, is projected to remain constant from 2023-24 through 2045-46. Unlike the state contribution rate, asset smoothing (smoothing the impact of investment volatility on the rate) does not have a material impact on the employer contribution rate over this period.

Source: Department of Finance

Legislative Analyst's Office Analysis:

The Legislative Analyst's Office notes that the reduction to CalSTRS district contribution rates in 2019-20 and 2020-21 in combination with the payment towards the long term CalSTRS liability would save school employers $6.9 billion ($3.9 billion net savings) over the next 30 years under current actuarial assumptions.

The LAO notes that district pension costs typically are covered using Proposition 98 General Fund; however, the Governor proposes using non-Proposition 98 General Fund for this proposal. Whereas this proposal would provide districts with perceptible budget relief over the next two years, the LAO notes that using the $700 million instead to pay down more of the CalSTRS unfunded liability would provide a longer-term benefit. Although over the long-term the districts' CalSTRS rate would be only slightly lower than it would be otherwise, the value of a making a $700 million unfunded liability payment now would grow over time. Such future relief could be important during the next economic downturn.

Subcommittee Questions:

1) Is the impact of the district rate relief spread evenly across districts in the state?

2) Did the Administration consider a proposal addressing the growing pension costs of the classified employees at a school district?

3) CalSTRS: What is the likelihood that the .5 percent reduction in the long –term CalSTRS rate will result from the $2.3 billion payment? Are there indicators/ scenarios where this reduction would not materialize?

Staff Recommendation:

Hold open, this issue is also being heard in Subcommittee #4.

6350 OFFICE OF PUBLIC SCHOOL CONSTRUCTION

Issue 4: K-12 School Facilities

Panel:

- Keith Nezaam, Department of Finance
- Lisa Silverman, Office of Public School Construction
- Amy Li, Legislative Analyst's Office

Background:

The State Facilities Program was created in 1998 for the purpose of allowing the state and school districts to share the costs of building new school facilities and modernizing existing facilities. Between 1998 and 2006 there were four voter-approved bonds for the school facilities program (totaling $35.4 billion) which funded the program through 2012.

Key Components of School Facilities Program

- ***New Construction Eligibility Based on Enrollment Projections.*** Districts submit specific new construction projects for approval and receive a grant based on their number of current and projected unhoused students. The state awards funding on a first–come, first–served basis. The state and school districts share project costs on a 50–50 basis. Districts are required to submit progress reports, expenditure reports, and project information worksheets. Districts that receive grants also are required to set aside three percent of their annual budget for routine maintenance.

- ***Modernization Eligibility Based on Age of Building.*** Districts submit specific modernization projects for approval and receive a grant based on the number of students housed in buildings that are at least 25 years old. The state awards funding on a first–come, first–served basis. The state and school districts share costs on a 60–40 basis. Districts are required to submit progress reports and expenditure reports. Districts that receive grants also are required to set aside three percent of their annual budget for routine maintenance.

- ***Financial Hardship Program Targeted to School Districts With Inadequate Local Resources.*** The state covers part or all of project costs for districts unable to meet the local match requirement for new construction and modernization projects. Districts have to levy the maximum developer fee allowed (typically 50 percent of project costs), demonstrate local effort (typically through placing a bond measure on the ballot), and certify they are unable to contribute the full match.

- ***Several Categorical Programs Targeted to Specific State Priorities.*** The four state bond measures enacted since 1998 have authorized various categorical facility programs. These have included programs for reducing class sizes; alleviating overcrowding; building and renovating charter schools; integrating career technical education into high schools; mitigating seismic safety issues; and promoting projects with "high performance attributes" such as energy efficiency, enhanced natural lighting, and use of recycled materials.

In 2016, voters passed Proposition 51, which authorized the state to sell $7 billion in general obligation bonds to fund the existing school facilities program (the bond total was $9 billion, with $2 billion designated for community colleges facilities.) Of this total, $3 billion is for new construction projects, $3 billion is for modernization projects, and the remaining $1 billion is split between charter school and career technical education projects. After bond funds are approved by the voters, the State Treasurer sells the bonds and the state repays the general obligation bonds using General Fund dollars. The state generally times the sale of bonds to coincide with the amount of shovel-ready projects to avoid paying interest on funds that are not immediately used.

LEAs have other options for financing school facilities related projects, the most common of which are local general obligation bonds, which can be passed with 55 percent of voter approval and are repaid by increasing local property tax rates. LEAs can also levy developer fees that may cover up to a portion of the cost to build a new school, or use other local funding sources.

Project Funding and Accountability.

The process for an LEA to apply for funding through the school facilities program is complex and involves multiple state agencies. LEAs building new schools must work with CDE on selecting an appropriate site. LEAs who are building new schools or modernizing old schools must also have their plans approved by the Division of the State Architect (DSA) to ensure they are field act compliant and meet all other required standards. These steps must be done whether or not a LEA is applying for state funding. With approved plans, a LEA can apply to the Office of Public School Construction (OPSC) who will calculate the LEA's eligibility and check approvals, including certifying local matching funds are available and the project is shovel ready, before moving the project to the State Allocation Board (SAB) for approval and a release of cash.

The 2017-18 Budget Act and the 2018-19 Budget Act each included $594 million in Proposition 51 bond funding for a total of $1.2 billion available in Prop 51 funds. As of February 27, 2019, the State Allocation Board has apportioned $962.5 million in Prop 51 bond funding, and has $740.6 million in unfunded approvals. The OPSC reports that they anticipate another $192.3 million from 2018-19 bond sales and districts will have 90 days to submit their fund release request by July 2019. The chart below details bond funds and projects in various stages of funding.

Proposition 51 Bond Authority

(In Millions)

	Original Bond Allocation	Apportioned (02/27/2019)	Unfunded Approvals	Workload List (2/28/2019)	Acknowledged List	Remaining Bond
New Construction	$3,000.00	$429.80	$165.30	$2,520.00	$261.30	($376.40)
Modernization	$3,000.00	$367.70	$124.60	$2,547.40		($39.70)
CTE	$500.00	$109.70	$13.70			$376.60
Charter Schools	$500.00	$55.30	$437.00			$7.70
Total	$7,000.00	$962.50	$740.60	$5,067	$261	

Source: Office of Public School Construction

Unfunded approvals are projects that have already been through the approval process and are waiting for state financing at the SAB. The workload list contains applications that have been received and accepted for processing and are within the amount of bond authority remaining from Proposition 51. The acknowledged list includes projects that are in excess of the bond authority available from

Proposition 51. Applications for these projects are not processed and school district governing boards must include certifications that acknowledge the lack of available funding among other things along with their applications.

The Career Technical Education (CTE) Facilities Program provides funding for school districts, county offices of education, and qualifying joint powers agencies that operate eligible CTE programs. Applicants must first apply to CDE to meet CTE related requirements. Those that meet the standard may then apply for funding at the OPSC. Funding is provided in cycles determined by the SAB.

The Charter School Facility Program Preliminary Apportionments Bond authority on the unfunded approval list is reserved for specific projects and applicants will have up to five years to request to convert the funds to a final apportionment.

As workload at OPSC decreased significantly when funding from the 2006 bond was exhausted, the state reduced staffing at the OPSC. OPSC historically has averaged around 130 staff, and today is at a low point of approximately 52 staff. OPSC staffing has not been increased since the new bond was authorized, although in the current year OPSC has redirected three positions, for a total of 10 positions processing applications in 2018-19. The remainder of the positions are working on facility appeals and completing other work.

Governor's Proposal:

The 2019-20 Governor's budget includes $1.5 billion in bond authority available for school facilities projects and an increase of 10 positions for OPSC. These positions would be funded with $1.2 million in ongoing bond funds ($1,202,000 in 2019-20 and $1,185,000 in budget year +1). These 10 positions include two Staff Services Managers I and eight Staff Services Analysts. The Administration notes that this increase in staffing aligns with the increase in workload related to processing $1.5 billion in applications annually. Finally, the Administration notes that an increase of $1.5 billion in bond sales would result in annual debt service by approximately $84 million for a total debt service in 2019-20 of approximately $2.3 billion for K-12 facility debt service from Prop 51 and prior bonds.

Legislative Analyst's Office Analysis:

The Legislative Analyst's Office (LAO) recently released an analysis of the Governor's proposals for facilities funding. The LAO notes that the Governor's proposal to sell $1.5 billion in bonds in 2019-20 is reasonable and would allow the state to clear more of the backlog of projects.

The LAO notes that OPSC dedicates a relatively small share of staff to processing applications (19 percent of 52 positions). The LAO notes that in order to process $1.5 billion, the OPSC would be working through approximately 380 applications in 2019-20. The LAO performed an analysis of the workload needs presented in the budget change proposal from the OPSC and concluded that the increase in applications could be processed with 12 full-time employees (FTEs), an increase of just two over OPSC's current staff dedicated to application processing. Further the LAO believes that the OPSC has the capacity to shift two positions from other activities to application processing, and therefore recommends the Legislature deny the request for additional positions at OPSC.

Suggested Questions:

1) When does OPSC see workload in other areas, including audits, decreasing?

2) What type of outreach does OPSC staff continue to provide given that the applications for projects currently exceeds the amount of bond funding?

3) Can OPSC comment on the LAO's workload analysis and the potential to shift positions internally?

4) Does the Administration plan to continue on a pace of $1.5 billion per year in Proposition 51 bond funding?

Staff Recommendation: Hold open.

Issue 5: K-12 School Facilities Alternate Proposal

Panel:

- Senator Mike McGuire

Proposal:

The Senator proposes increasing the amount of bond sales in 2018-19 and 2019-20 to make the full $5 billion remaining in bond funds available through 2019-20. The Senator notes that according to OPSC, requests for funding of new construction and modernization already exceed the remaining bond funding. In addition, delays in the sale of bonds likely means that the state will be subject to higher interest rates and increased debt service over the life of the bond term. Finally, for local school districts, delays generally mean rising project costs due to increases in the costs of construction. A letter requesting this increase was shared between the houses of the Legislature and provided to the Administration. Legislators who have signed on to the request include:

Senator Mike McGuire
Senator Bill Dodd
Senator Steven M. Glazer
Senator Jerry Hill
Senator Scott Wilk
Assemblymember Cecilia M. Aguiar-Curry
Assemblymember David Chiu
Assemblymember James Gallagher
Assemblymember Christina Garcia
Assemblymember Todd Gloria
Assemblymember Adrin Nazarian
Assemblymember Rivas
Assemblymember Christy Smith