

# AGENDA

## ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assemblymember Kevin McCarty, Chair

TUESDAY, MARCH 7, 2017

9:00 AM - STATE CAPITOL ROOM 444

ITEMS TO BE HEARD		
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	<b>GOVERNOR'S 2017-18 BUDGET PROPOSALS:</b>	
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## ITEMS TO BE HEARD

### 6100 DEPARTMENT OF EDUCATION

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#### ISSUE 1: LOCAL CONTROL FUNDING FORMULA FOR SCHOOL DISTRICTS AND CHARTER SCHOOLS

The Subcommittee will hear an overview of the Local Control Funding Formula (LCFF) for school districts and charter schools. The Subcommittee will also discuss the Governor's budget proposals related to the LCFF.

#### PANEL 1:

- Ian Johnson, Department of Finance
- Ryan Anderson, Legislative Analyst's Office
- Debra Brown, Department of Education

#### BACKGROUND

AB 97 (Committee on Budget), Chapter 47, Statutes of 2013, and subsequent legislation created the LCFF, which consolidated most of the state's categorical programs with the discretionary revenue limit funding to create a new student formula to be phased in over several years.

The LCFF was the result of extensive research and policy work, which was originally proposed by Governor Brown in 2012 with the "Weighted Student Formula" and again in 2013 with the "Local Control Funding Formula." The purpose of the LCFF was to create a more simple and equitable formula that is intended to improve student outcomes by shifting decision making to the local level and redistributing resources to students that require additional services. The LCFF consists of a base grant for all students, supplemental funding for English learners, low-income and foster youth, and concentration funding for local educational agencies (LEAs) with high proportions of students that qualify for supplemental funding. However, because the state could not fully fund the LCFF when it was enacted, the state set target rates which would be funded over the next several years. The Department of Finance estimates that the LCFF will be fully funded by 2020-21.

The formula for school districts and charter schools consists of the following components:

- Base Grant. Under the LCFF, school districts and charter schools receive the majority of their funding through a base grant based on average daily attendance (ADA) and adjusted for four grade span needs. The formula includes a 10.4 percent increase in the base rate for grades K-3 in order to cover the costs associated with class size reduction in these grades. The student to teacher ratio established by the LCFF in grades K-3 is 24 to one, to be phased-in over eight years. The high school grade span

adjustment increases the base grant for grades 9-12 by 2.6 percent, taking into account costs associated with career technical education (CTE) and other high school programs.

- Supplemental Grant. The LCFF provides a “supplemental grant” for English learners, low-income and foster youth students. Under the formula, these student groups generate an additional 20 percent of the student’s base rate. Students can only qualify for one supplemental grant, meaning that if a student is both an English learner and low-income, they are only counted once. All foster youth are also considered low-income; therefore it is unnecessary to discuss them as a separate group.
- Concentration Grant. The LCFF also provides a “concentration grant” for districts whose English learner and low-income student population exceeds 55 percent. These districts will receive an additional 50 percent of the adjusted base grant for each English learner and low-income student above the 55 percent threshold.
- Add-Ons. Two former categorical programs are treated as “add-ons” to the LCFF. These include the Home-to-School Transportation (HTST) program and the Targeted Instructional Improvement Block Grant (TIIG). Districts that received categorical funding for these programs in 2012-13 will continue to receive the same amount of funding through this add-on. Districts that did not receive this categorical funding previously will not receive the add-on.
- Economic Recovery Target. Some districts will receive an Economic Recovery Target (ERT) add-on. This add-on is targeted at those districts that would have fared better under the prior funding formula, had the revenue limit deficit factor and categorical funding been fully restored to pre-recession levels. The ERT add-on is calculated by the difference between the amount a district would have received under the old system and the amount a district would receive based on full implementation of the LCFF. However, districts that are in the 90<sup>th</sup> percentile or above in per-pupil spending under the old system are not eligible to receive the ERT. Approximately 130 districts receive the ERT add-on.
- Cost of Living Adjustment. Each year the target base rate will be updated for cost of living adjustments (COLAs), creating a moving target. Until districts reach their target funding level, COLA will be included in their growth funding. This will vary district by district. For example, a district that is close to their LCFF target will receive a smaller amount for COLA than a district that is further away from their target. Once the target funding level is reached, districts will then receive the full COLA each year (assuming that the state has sufficient funds to do so).

Because the cost of the LCFF is higher than the previous funding formula, it is estimated to be phased in over eight years. New funding for the LCFF will be allocated to school districts and charter schools based on their funding “gap,” which is the difference between their prior year funding level and their target LCFF funding level. Each district will see the same percentage of their gap closed, but the dollar amount will vary for each district.

**The Governor’s 2017-18 Budget**

The Governor’s January budget includes \$744 million to further implement the LCFF for districts and charter schools. This represents 24 percent of the remaining gap funding needed to reach full implementation of the LCFF and represents a 1.4 percent increase from 2016-17. The Governor’s budget provides a total of \$56.6 billion for LCFF, approximately 96 percent of the full implementation cost. In order to fully implement the LCFF in 2017-18, the state would need to provide \$2.3 billion above the Governor’s proposed \$744 million.

Since 2013-14, the state has provided a total of \$15.7 billion in LCFF implementation funding. The chart below includes the LCFF funding and gap closure percentage for districts and charter schools through 2016-17 and the Department of Finance’s projections through 2020-21.

District and Charter School LCFF (Dollars in Millions)								
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
LCFF Funding	\$2,067	\$4,722	\$5,994	\$2,942	\$744	\$1,904	\$2,022	\$1,667
Remaining LCFF								
Gap Closed	12%	30%	53%	55%	24%	54%	69%	100%

Source: Department of Finance

LCFF Payment Deferral

The Governor’s January budget proposes to shift an \$859 million LCFF payment from June 2017 to July 2017, in effect shifting the payment from the 2016-17 fiscal year to the 2017-18 fiscal year. The Governor proposes this shift in order to reduce the Proposition 98 minimum guarantee for 2016-17. The Governor proposes to immediately repay this payment deferral in 2017-18.

The Governor’s proposal to defer payments to schools is not a new approach. Since 2001, deferrals have become a common budgeting tactic in tough economic times. By delaying Proposition 98 payments owed to schools from one budget year to the next, the state is able to achieve one-time savings without cutting programmatic spending. Large Proposition 98 deferrals became a common mechanism for balancing the state budget during the recession. By the end of 2011, the state was deferring a total of \$10.4 billion in payments to schools. Many school districts were no longer able to simply dip into their reserves to cover the late payment, resulting in cash flow problems and increased borrowing costs. In 2012 the state began the process of retiring the education deferral payments and ultimately eliminated the deferrals remaining from the recession in the 2014-15 fiscal year.

Cost of Living Adjustment

The Governor’s budget includes \$58.1 million for a 1.48 percent COLA for education programs funded outside the LCFF. These programs include: special education, child nutrition, state preschool, foster youth services, American Indian education centers and American Indian early childhood education programs.

**Increased Pension Costs and LCFF Funding**

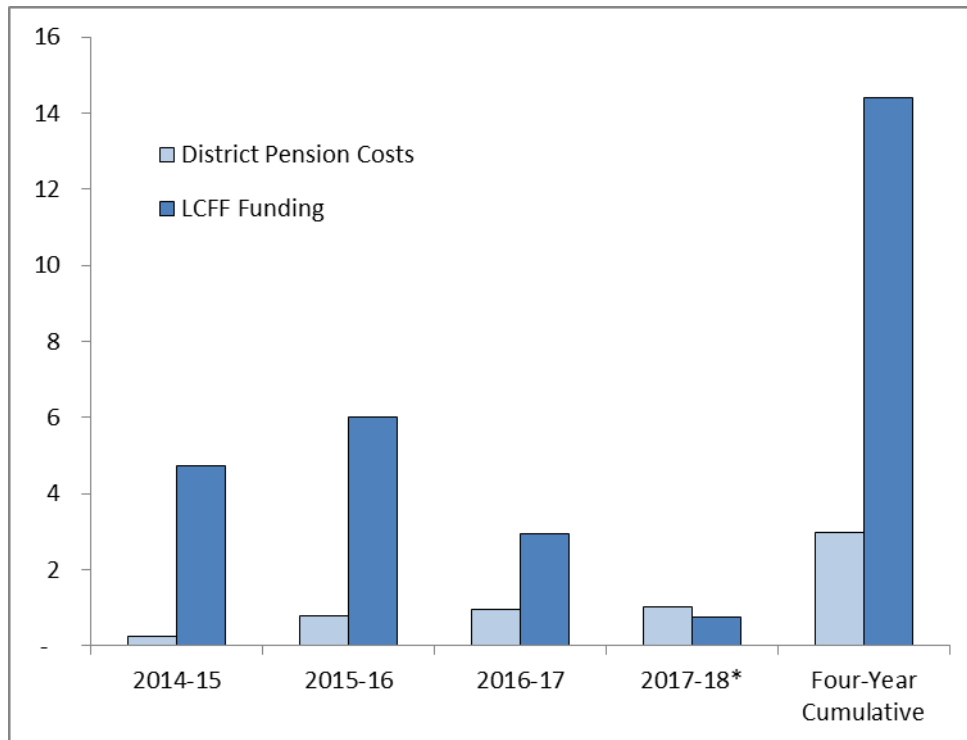
In 2014, CalSTRS estimated that its investment fund was more than \$70 billion short of the amount needed to pay for benefits its members earned through that date. In order to address this unfunded liability, the state passed AB 1469 (Chapter 47, Statutes of 2014), which included a plan to pay this liability over 30 years through increased contributions from school districts, teachers and the state. Under the plan:

- School district contributions increased from 8.25 percent in 2013-14 to 19.1 percent in 2020-21.
- Teacher contributions increased from 8.15 percent in 2013-14 to 10.25 percent in 2016-17.
- State contributions increased from 5.2 percent in 2013-14 to 10.6 percent in 2016-17.

At the same time, CalPERS also had significant unfunded liability, resulting in the CalPERS board taking action in recent years to increase school district contribution rates (and other state agencies). These actions include increased contributions for school districts from 11.4 percent in 2013-14 to 24.9 percent by 2020-21. Additionally, CalPERS recently lowered its assumed annual investment return, which will result in additional increased contributions for districts beginning in 2018-19.

Due to these changes, pension costs for districts have increased by approximately \$2 billion since 2013-14, and it is estimated these costs will continue to grow by an additional \$4.5 billion by 2020-21. As shown in the graph below, LCFF funding over the last three years has been significantly higher than the total district pension cost increases. However, under the Governor's 2017-18 proposed budget, district pension costs would be higher than the increased LCFF funding.

**Comparing Statewide Growth in LCFF Funding and District Pension Costs  
(In Billions)**



\* LCFF increase reflects Governor's January budget proposal. Source: Legislative Analyst's Office

**LAO Recommendations**

The LAO believes the Governor’s plan to dedicate most new ongoing K-12 funding to LCFF implementation is consistent with the Legislature’s approach over the past four years. The LAO also believes that the Governor’s revenue estimates are too low. Therefore, the Legislature may be able to dedicate even more to LCFF implementation in May.

The LAO recommends exhausting other potential one-time options before adopting a payment deferral. However, if the deferral is necessary, the LAO recommends eliminating the deferral as soon as possible.

**STAFF COMMENTS:**

The Governor’s budget prioritizes almost all new ongoing funding in 2017-18 to eliminate the deferral and increase funding for the LCFF. Staff agrees that new ongoing funding should be prioritized to further implement the LCFF.

Although payment deferrals can cause cash flow issues for districts, staff recommends this approach over making programmatic cuts to schools. Many education advocates oppose the deferral and instead support maintaining the higher Proposition 98 funding level in prior years. Staff notes that providing additional funding for schools above the minimum guarantee in prior years would permanently increase the minimum guarantee going forward, impacting the non-Proposition 98 side of the budget.

Increased pension costs and other increased costs are causing budgetary issues for many districts, especially those districts that have not received a significant amount of new funding through the LCFF. Many districts argue that they will not be able to maintain programmatic increases made in recent years, due to these rising costs. Although districts have known that these increased costs were coming, many may have anticipated larger growth in LCFF funding in 2017-18. The Subcommittee may wish to explore this issue further and consider options to help districts address these growing costs.

Suggested Questions:

- Does the LAO agree with the Department of Finance's projections for full-implementation of the LCFF? Under the LAO's revenue estimates, would the state be able to fully implement the LCFF sooner?
- Does the DOF believe the LCFF base grant sufficiently covers the increased costs districts are facing, such as increased pension costs?
- What are the other one-time options that the LAO would recommend considering instead of the deferral?
- What would be the impact on the 2017-18 budget if the state did not reduce the minimum guarantee in the prior years?

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**Staff Recommendation: Hold Open**

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**ISSUE 2: LOCAL CONTROL FUNDING FORMULA FOR COUNTY OFFICES OF EDUCATION**

The Subcommittee will hear an overview of the LCFF for county offices of education (COEs) and the Governor's proposed funding level for COEs. The Legislative Analyst's Office will also present their findings and recommendations from their recent report on the responsibilities and funding for COEs under the LCFF.

**PANELISTS**

- Ian Johnson, Department of Finance
- Natasha Collins, Legislative Analyst's Office
- Debra Brown, Department of Education

**BACKGROUND**

Along with the creation of the LCFF for school districts and charter schools, the state also created a new formula for county offices of education (COEs). COEs, however, have a two-part formula in recognition that COEs provide two different functions. First, COEs provide support and services for their member districts. Second, they operate alternative schools for students that are incarcerated, on probation, referred by a probation officer, or have been expelled.

The COE LCFF provides a grant based on the total number of school districts and number of students within the county. This is meant to cover the support services provided by the COE. The LCFF also provides a grant for COEs to run alternative schools. This grant amount is determined similar to the LCFF formula for school districts, however, the base rate is significantly higher and the supplemental and concentration grants are slightly different. For COEs, supplemental funding generates 35 percent of the base grant (rather than 20 percent for districts) and concentration grants provide 35 percent of the base grant for unduplicated students above the 50 percent threshold (rather than 20 percent of the base grant for unduplicated students above the 55 percent threshold).



The figure below outlines the two-part formula for COEs.

Figure 5 Two-Part Local Control Funding Formula for COEs	
2016-17 Rates	
Alternative Education	
Eligible student population	Students who are (1) under the authority of the juvenile justice system, (2) probation referred, (3) on probation, or (4) mandatorily expelled
Base funding	\$11,429 per student <sup>a</sup>
Supplemental funding for EL/LI and foster youth students	35 percent of base rate <sup>b</sup>
Concentration funding	Additional 35 percent of base rate for EL/LI and foster youth students above 50 percent of enrollment <sup>b</sup>
District Services	
Base funding of \$668,242 per COE	
Plus \$111,374 per school district in the county (corrected 2/17/2017)	
Plus \$41 to \$71 per student in county (less populous counties receive higher per-student rates) <sup>a</sup>	
<sup>a</sup> As measured by average daily attendance.	
<sup>b</sup> Assumes 100 percent of students at juvenile court schools are English learner and low income (EL/LI).	

Source: Legislative Analyst’s Office

The COE LCFF is funded by a combination of General Fund and local property tax revenue. Unlike the previous funding formula, COEs have the flexibility to use their LCFF funding for any purpose.

The COE LCFF also includes two “hold harmless” provisions. First, each COE will continue to receive at least as much funding as it received in 2012-13 under the prior funding formula. Second, each COE will continue to receive at least as much General Fund as it received in 2012-13 for categorical programs (this is known as the “minimum state aid” provision). The amount of minimum state aid COEs receive is based on historical participation in categorical programs. Almost two-thirds of COEs receive funding from one or both hold harmless provisions.

**Governor’s 2017-18 Budget**

The Governor’s January budget includes an increase of \$2.4 million in Proposition 98 funding to support a 1.48 percent COLA and attendance changes for COEs. Total LCFF funding for COEs is approximately \$1 billion. Unlike school districts and charter schools, COEs reached their LCFF targets in 2014-15, one year after enacting the LCFF.

The 2015-16 budget provided \$40 million in one-time Proposition 98 funding for COEs to use over two years. This funding was provided to help COEs with the review and approval of district LCAPs.

**CCSESA Budget Proposal**

The California County Superintendents Educational Services Association (CCSESA) is requesting an ongoing budget augmentation of \$16.8 million for COEs to continue to support, review, and approve school district LCAPs. Specifically, the proposal would increase the

“target” level of funding for COEs under the LCFF by \$50,000 per school district and \$3 per ADA in the county. Under the proposal, the new state funding would be allocated to the lowest-funded COEs, while those at higher levels of funding (commonly referred to as “hold harmless” counties) would be expected to use their existing funding to provide support to districts on their LCAP.

### **LAO Report and Recommendations**

The LAO recently released a report evaluating the responsibilities of COEs under LCFF and assessing how well state funding is aligned with these responsibilities. The LAO estimates that of the \$1 billion COEs receive through the LCFF, COEs spend approximately \$283 million on alternative schools, \$40 million on required district oversight, and the remaining on optional services to districts.

The LAO’s recommendations include:

- Alternative Education. Provide districts funding directly for alternative school students. Allow pass throughs to COEs. For juvenile court schools, set COE as default provider, but allow districts the option of selecting another provider. Also, set default COE reimbursement rate but allow for rate to be locally negotiated.
- Fiscal and Academic Oversight. Fund COEs directly for these state-required activities. Allocate funds according to the number of districts in each county and the size of those districts.
- Other Compliance Monitoring. Continue to fund COEs for other compliance monitoring through the K-12 mandates block grant.
- Optional Services. Shift funding to districts and have COEs charge fees for the optional district services they provide.

### **STAFF COMMENTS/QUESTIONS**

According to the LAO’s analysis, COEs spend approximately \$650 million on optional services for districts. These optional services include activities similar to former categorical programs, such as career technical education programs. Additionally, many COEs provide more LCAP support than they are required. The state provided \$40 million in one-time funding in 2015-16 for COEs to use over two years, with the intent that the funding would be used to review and approve district LCAPs. CCSESA is requesting an ongoing budget augmentation for COEs by \$16.8 million beginning in 2017-18. The Subcommittee should consider what ongoing responsibilities the COEs should have going forward and if additional funding is necessary. Staff notes that most COEs are currently funded above their targets, due to the hold harmless provisions. Therefore, staff recommends any new funding provided should be allocated to the lowest funded COEs, as proposed by CCSESA.

Suggested Questions:

- Does the DOF or CDE have a response to the LAO's recommendations for funding COEs?
- Does the Administration and LAO believe that COEs LCFF funding is sufficient for them to review and approve district's LCAPs and provide the necessary support?
- Did the LAO look at how the \$40 million in one-time funding has been spent by COEs?

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**Staff Recommendation: Hold Open.**

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**ISSUE 3: STATE ACCOUNTABILITY UPDATE**

The Subcommittee will hear an update of the state's new accountability system.

**PANELIST**

- Edgar Cabral, Legislative Analyst's Office
- David Sapp, State Board of Education
- Keric Ashley, Department of Education
- Joshua Daniels, California Collaborative for Educational Excellence

**BACKGROUND**

In conjunction with the LCFF, the state also established a new system for school accountability. This system includes the Local Control Accountability Plan (LCAP), Annual Update, evaluation rubrics, and the California Collaborative for Educational Excellence (CCEE). The intent of this new accountability system is to support continuous learning and improvement. Additionally, with the passage of the federal Every Student Succeeds Act (ESSA), the State Board of Education (SBE) is committed to creating one accountability system that is aligned to both state and federal rules.

**Local Control Accountability Plan and Annual Update**

Under the new system, LEAs are required to complete a LCAP every three years, which is to be updated annually. The LCAP must include annual goals in each of the state priority areas, which include:

- 1) Basic services
- 2) Implementation of state standards
- 3) Parental involvement
- 4) Student achievement
- 5) Student engagement
- 6) School climate
- 7) Course access
- 8) Other student outcomes

For school districts, the plans must include both district wide goals and goals for specific subgroups. Districts are required to consult with stakeholders on their plans and hold at least two public hearings before adopting or updating their LCAP. Districts must submit their LCAP to the COE for review. The COE can suggest amendments to the LCAP, which the district must consider. If the COE does not approve the district's LCAP, the state will then intervene. COEs are also required to complete a LCAP for their alternative education programs, which is submitted to the Department of Education for review. Districts, charter schools and COEs are required to adopt their LCAP or Annual Update by July 1<sup>st</sup> each year.

The SBE was charged with adopting the template for LEAs to use in adopting their LCAP, as well as the regulations for how districts can use their supplemental and concentration funds. The SBE recently updated the LCAP template, in an effort to simplify the document and make it more user-friendly for parents and the public. The new LCAP template also includes a plan

summary, which provides a high level summary of the district's plan and how the district is improving services for English learners and low-income students. Additionally, in 2014 the SBE adopted regulations outlining how districts can use their supplemental and concentration grant funds. These regulations allow for districts that have over 55 percent English learners or low-income students to use the supplemental and concentration funding on a districtwide basis as long as they identify the services being provided and how those services are benefiting these students. For those districts that have less than 55 percent English learner and low-income students, the regulations allow them to also use the extra funds for districtwide purposes, but they must also describe how the districtwide services are the most effective use of the funds to meet their goals for these students. The regulations also provide a formula for districts to calculate the proportion of their LCFF funds that are generated by English learners and low-income students.

### California School Dashboard

The SBE was also required to adopt "evaluation rubrics" as part of the new accountability system. The evaluation rubrics will be used to evaluate how LEAs are performing in each of the state priority areas and determine whether a LEA is in need of support or intervention. The SBE had until October 1, 2016 to adopt the rubrics. (The Legislature extended this deadline by one year in the budget trailer bill, AB 104 (Chapter 13, Statutes of 2015), in order to provide the SBE the time needed to ensure the rubrics were evidence-based and part of the overall accountability system.) The SBE adopted the evaluation rubrics as the "California School Dashboard" in September 2016 and made additional changes at its November 2016 and January 2017 meetings. The California School Dashboard will be available to the public in March and will be fully operational for the 2017-18 school year.

The Dashboard includes the following state indicators, which apply at the LEA and school level:

- **An academic indicator** based on student test scores on English Language Arts (ELA) and Math for grades 3–8, including a measure of individual student growth, when feasible, and results on the Next Generation Science Standards assessment, when available
- **A college/career indicator** that combines Grade 11 test scores on ELA and Math and other measures of college and career readiness
- **An English learner progress indicator** that measures progress of English learners toward English language proficiency and incorporates data on reclassification rates
- **High school graduation rate**
- **Chronic absence rates**, when available
- **Suspension rates** by grade span

The Dashboard includes the following local performance indicators, which apply at the LEA level only:

- Appropriately Assigned Teachers, Access to Curriculum-Aligned Instructional Materials, and Safe, Clean and Functional School Facilities
- Implementation of State Academic Standards
- Parent Engagement
- School Climate – Local Climate Surveys

- Coordination of Services for Expelled Students – County Offices of Education (COEs) Only
- Coordination of Services for Foster Youth – COEs Only

Data for these indicators is not collected at the state level. LEAs will therefore measure and report on their progress based on locally collected data.

### **California Collaborative for Educational Excellence**

This new accountability system also includes a new system of support. The California Collaborative for Educational Excellence (CCEE) was created in order to provide assistance to school districts that need or ask for help in a particular area. Under the new system, if a school district that does not meet performance expectations in the eight state priority areas, they could be subject to intervention by their COE or the CCEE. Districts that are continuously not meeting performance standards will be subject to intervention by the SBE and State Superintendent of Public Instruction.

The 2013 Budget Act provided \$10 million in one-time funding to establish the CCEE. Ongoing funding for this new entity has not been provided, since the role and scope of work of the CCEE is still being developed.

The 2016 Budget Act provided additional one-time funding for the CCEE, which includes:

#### Professional Development and Training

The 2016 Budget Act provided \$20 million in Proposition 98 funding (to be used over three years) to provide statewide professional development for LEAs on utilizing the California School Dashboard (formerly the LCFF evaluation rubrics) and the LCAP and Annual Update templates. At its meeting on October 6, 2016, the CCEE Governing Board approved the LCFF Professional Development Training Implementation Plan. The CCEE's plan includes the following components:

- **Annual Workshops.** Component I of the plan involves two sets of annual workshops through the state in the fall and spring. The workshops include information for school districts, charter schools, and local stakeholders on how to use the Dashboard in developing their LCAP and how to use this information in order to improve student outcomes. The content of these workshops is created through a collaborative process involving the SBE, CDE, the California County Superintendents and Educational Services Association (CCSESA) and other stakeholders.
- **Aligned Local Trainings.** Component II of the plan involves partnering with Regional Lead County Offices of Education and creating an aligned LCFF Content Library in order to support aligning local trainers and training focused on using the Dashboard and the LCAP template as tools for continuous improvement. The CCEE is in the process of collecting materials to be included in the LCFF Content Library, which they plan to have available in the summer or fall of this year.
- **Networks.** Component III consists of two levels of support networks to build capacity and support deeper learning in regards to interpreting, using and understanding the Dashboard and the LCAP template as tools for continuous improvement. Most of

these networks will start in the 2017-18 school year. However, the CCEE has identified some early adopter networks that have already begun this work.

- **Support Desk.** Component IV of the plan involves establishing a support desk to respond to substantive inquiries that relate to using the Dashboard and the LCAP template. The CCEE will work with relevant entities in responding to these inquiries, including the SBE, CDE and COEs.

The budget trailer bill also required the CCEE to conduct a survey in the 2017-18 fiscal year of LEAs on how they used the Dashboard to develop and implement their most recent LCAP. The CCEE plans to hire additional staff to conduct the survey and provide an evaluation of the responses. The CCEE's plan also includes funding for additional management level staff and expansion of their website.

Below is the CCEE's planned budget for the \$20 million in professional development funding over three years.

<b>Budget Summary</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>Total</b>
Component I: Annual Workshops	\$1,250,000	\$1,125,000	\$1,125,000	<b>\$3,500,000</b>
Component II: Aligned Local Trainings	\$1,200,000	\$625,000	\$625,000	<b>\$2,450,000</b>
Component III: Networks	\$1,500,000	\$3,750,000	\$3,750,000	<b>\$9,000,000</b>
Component IV: Support Desk	\$75,000	\$25,000	\$25,000	<b>\$125,000</b>
Evaluation	\$300,000	\$600,000	\$600,000	<b>\$1,500,000</b>
Other Items	\$1,175,000	\$1,125,000	\$1,125,000	<b>\$3,425,000</b>
<b>Total</b>	<b>\$5,500,000</b>	<b>\$7,250,000</b>	<b>\$7,250,000</b>	<b>\$20,000,000</b>

#### CCEE Pilot Program

The 2016 Budget Act also provided \$4 million for the development of a pilot program to inform the state's long-term strategy for advising and assisting LEAs in improving student outcomes. The 2016 Budget also re-appropriated \$5.6 million from the CCEE's initial appropriation (from the 2013 Budget Act) to use for the pilot program, for a total budget of \$9.6 million. The CCEE board adopted the Pilot Program implementation plan in August of 2016. The CCEE's plan and budget included partnering with five to eight LEAs to further support their capacity-building to achieve their LCAP goals. After approving the participating LEAs, the CCEE will then work with the individual LEAs collaboratively to identify goals and the focus of the pilot. The CCEE would then provide guidance, coaching and support from expert practitioners to address specific problems at no cost to the LEA.

The CCEE has received more interest from LEAs than expected. So far, the CCEE has approved 9 LEAs for the pilot program, and anticipates approving a total of 11 this year. The pilot program also includes an evaluation process in order to inform best practices and lessons learned from the pilot program. The evaluation will also help inform how the state's intervention system should look in the future.

<b>STAFF COMMENTS/QUESTIONS</b>
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California is in its fourth year of implementing the LCFF and new accountability system. School districts, charter schools and county offices of education have already begun setting goals under this new system through the LCAP and Annual Update. The SBE recently adopted the evaluation rubrics, or California School Dashboard, which will provide specific data about the performance of schools and districts, including test scores, graduation rates, English learner reclassification rates, suspension rates and other locally collected data. Additionally, the CCEE has undertaken some one-time activities to assist districts in implementing the new accountability system. However, many questions remain on the state's evolving accountability system, including:

**What is the ongoing role of the CCEE and COEs?** The state has not yet determined how the state's system of support and intervention will be structured, including what the ongoing role of the CCEE and COEs should be. The state has provided the CCEE with one-time funds, but has not clearly outlined the CCEE's ongoing activities and budget. Additionally, the state provided one-time funding for COEs to provide LCAP support for districts, but this one-time funding runs out at the end of 2016-17.

**Is the state's new accountability system working?** With the roll-out of the new Dashboard, the state and local communities will be able to see how districts are doing in serving low-income, English learners and foster youth students (among other subgroups). With this tool, will the state be able to determine if the LCFF and new accountability system is working to close the achievement gap for these students? If outcomes for these students are not improving, how can the state ensure that supplemental and concentration funding is reaching the students it was intended to help?

**Will the Dashboard be accessible and easily understood by parents?** The new accountability system is based on holding districts accountable by their local communities. However, many parents and community members have expressed concerns with the LCAP document because it is too long and difficult to understand. Questions remain on whether the new Dashboard will be utilized by parents and community members.



Suggested Questions:

- Is the LCFF and new accountability system working to close the achievement gap, especially for low-income, English learners and foster youth students?
- Will the California School Dashboard be accessible and easily understood by parents?
- Are school districts and charter schools prepared to adequately use the dashboard in developing their LCAPs?
- What is the status of the college and career readiness indicator included in the Dashboard? What data does the state collect to measure career readiness?

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**Staff Recommendation: Information Only.**

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**ISSUE 4: FISCAL CRISIS MANAGEMENT ASSISTANCE TEAM ANNUAL UPDATE**

The Fiscal Crisis Management Assistance Team (FCMAT) will provide its annual update to the Subcommittee on the fiscal health of school districts, including the number of school districts with negative and qualified certifications on the latest financial status reports and the status of state emergency loans.

**PANELIST**

- Joel Montero and Michael Fine, FCMAT

**BACKGROUND**

AB 1200 (Chapter 1213, Statutes of 1991) created an early warning system to help local educational agencies (LEAs) avoid fiscal crisis, such as bankruptcy or the need for an emergency loan from the state. AB 1200 expanded the role of county offices of education (COEs) in monitoring school districts and requires that they intervene, under certain circumstances, to ensure districts can meet their financial obligations. The bill was largely in response to the bankruptcy of 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, often referred to as the "AB 1200 process" requires the county superintendent to approve the budget and monitor the financial status of each school district and JPA in its jurisdiction. COEs perform a similar function for charter schools and the CDE oversees the finances of COEs.

**Fiscal Crisis and Management Assistance Team (FCMAT)**

AB 1200 also created the FCMAT, recognizing the need for a statewide resource to help monitoring agencies in providing fiscal and management guidance. The purpose of the FCMAT is to help LEAs fulfill their financial and management responsibilities by providing fiscal advice, management assistance, training and other related services. The bill specified that one county office of education would be selected to administer the assistance team. Through a competitive process, the office of the Kern County Superintendent of Schools was selected to administer FCMAT in June 1992.

There are several defined "fiscal crises" that can prompt a county office of education 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.

**Governor's 2017-18 Budget**

The Governor's budget includes \$5.3 million in Proposition 98 funding for FCMAT's functions and oversight activities related to K-12 schools. The Governor's Budget also includes \$570,000 Proposition 98 General Fund for FCMAT to provide support to community colleges.

**Fiscal Reports**

Current law requires districts to file two interim reports during a fiscal year on the status of the district's financial health. For the first interim report, districts self-certify their budgets to their COE by December 15 for the period ending October 31. COEs are then required to report

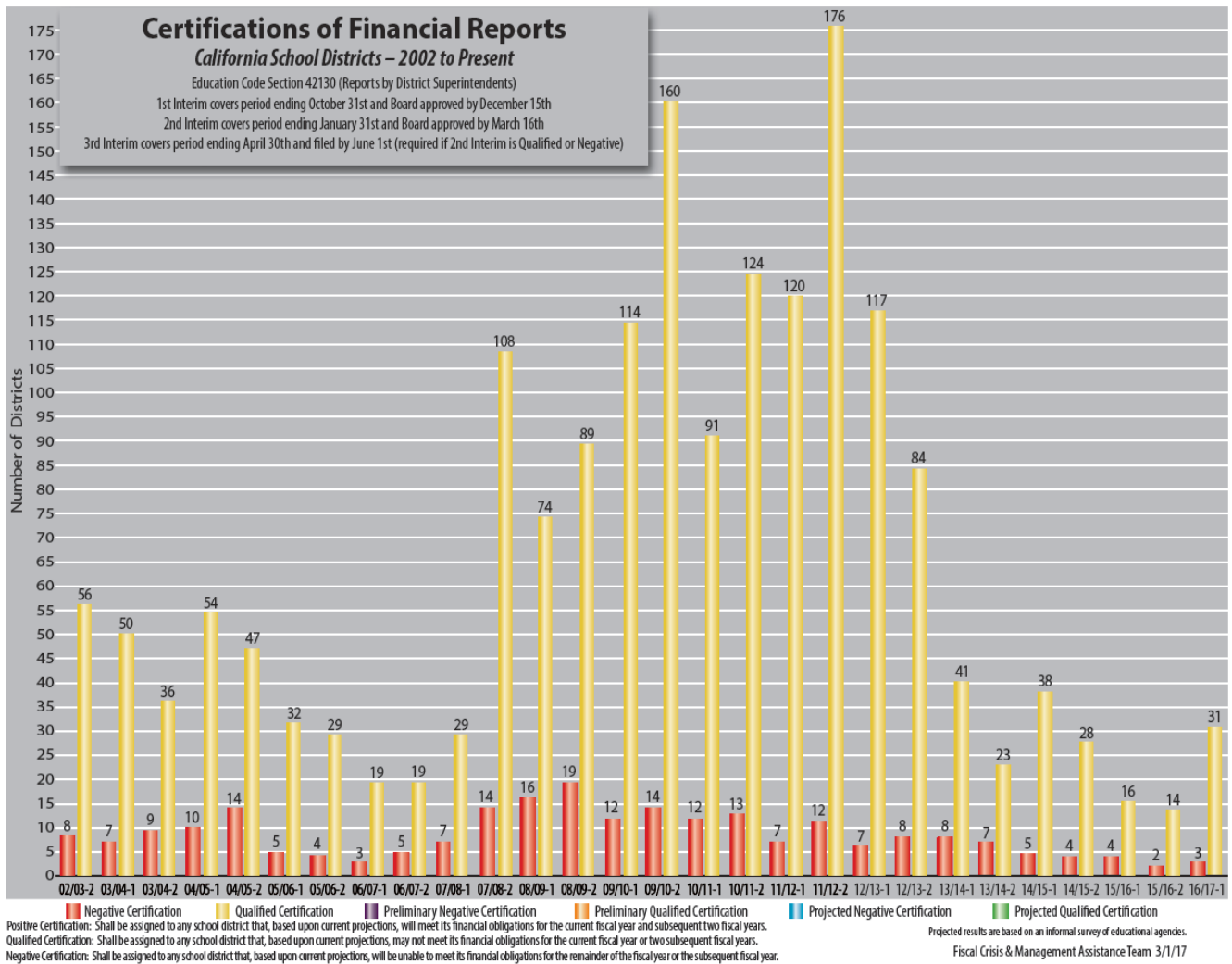
the certification for all districts in their county to the Superintendent of Public Instruction (SPI) and the State Controller within 75 days after the close of the reporting period (generally by March 1). For the second interim report, districts self-certify their budgets to their COE by March 17 for the period ending January 31. COEs are then required to submit their certification of these results to the SPI and the State Controller within 75 days after the close of the reporting period (generally by June 1).

The interim reports must include a certification of whether or not the LEA is able to meet its financial obligations. The certifications are classified as positive, qualified, or negative.

- A positive certification is assigned when the district will meet its financial obligations for the current and two subsequent fiscal years.
- A qualified certification is assigned when the district may not meet its financial obligations for the current or two subsequent fiscal years.
- A negative certification is assigned when a district will be unable to meet its financial obligations for the remainder of the current year or for the subsequent fiscal year.

### **School Fiscal Health**

The financial status of schools in California has improved significantly in recent years. As shown in the chart on the next page, the number of negative and qualified certifications has decreased considerably since 2011-12 when the state had 12 negative and 176 qualified certifications. The first interim status report for 2016-17 reported 3 negative certifications and 31 qualified certifications.



The table below shows the LEAs that have received negative or qualified certifications, as reported by the CDE's first interim report for 2016-17.

**Negative Certification**

Number	County	Local Educational Agency	Total Budget (\$) in millions
1	Placer	Colfax Elementary	3.5
2	San Luis Obispo	San Miguel Joint Union	5.1
3	San Mateo	San Bruno Park Elementary	30.4

Source: Department of Education

## Qualified Certification

Number	County	Local Educational Agency	Total Budget (\$) in millions
1	Alameda	Newark Unified	66.6
2	Alameda	Oakland Unified	540.0
3	Butte	Bangor Union Elementary	1.2
4	Butte	Feather Falls Union Elementary	0.4
5	Calaveras	Calaveras Unified	31.1
6	Contra Costa	Knightsen Elementary	6.0
7	El Dorado	Black Oak Mine Unified	12.6
8	El Dorado	Gold Trail Union Elementary	6.4
9	Inyo	Lone Pine Unified	6.4
10	Los Angeles	Covina-Valley Unified	142.8
11	Los Angeles	Inglewood Unified	125.0
12	Los Angeles	Los Angeles Unified	7,385.6
13	Los Angeles	Montebello Unified	347.2
14	Madera	Yosemite Unified	15.7
15	Marin	Sausalito Marin City	5.9
16	Marin	Union Joint Elementary	0.2
17	Orange	Saddleback Valley Unified	295.2
18	Riverside	Temecula Valley Unified	285.5
19	Sacramento	Galt Joint Union High	39.9
20	San Bernardino	Baker Valley Unified	3.9
21	San Bernardino	Colton Joint Unified	265.9
22	San Bernardino	Rim of the World Unified	40.5
23	San Diego	Julian Union High	2.7
24	San Diego	San Diego Unified	1,395.0
25	Santa Barbara	Hope Elementary	10.3
26	Santa Clara	Lakeside Joint	2.0
27	Sonoma	Santa Rosa Elementary	180.3*

28	Sonoma	Santa Rosa High	*
29	Sonoma	West Sonoma County Union High	25.6
30	Tuolumne	Curtis Creek Elementary	5.2
31	Tuolumne	Sonora Union High	13.8

\*Santa Rosa Elementary and Santa Rosa High are two districts with joint administration and fiscal reporting. The amount shown is the combined budget. Source: Department of Education

**Emergency Loans**

In most cases the assistance provided by county offices of education and FCMAT under the AB 1200 process is sufficient to pull LEAs out of immediate financial trouble. The option of last resort for LEAs that have insufficient funds is to request an emergency loan from the state. This is often the result of years of deficit spending and budgetary issues.

An emergency loan, or emergency appropriation, can be provided by the state through the legislative process. Accepting a state loan is not without consequence, however. The SPI assumes all legal rights, duties, and powers of the district governing board and an administrator is appointed to the district. Several conditions must be met before control is returned to the district. State loans are typically set up for repayment over 20 years and state control remains over the school district until the loan is fully repaid. The state loan is sized to accommodate the anticipated shortfall in cash that the district will need during the life of the loan in order to meet its obligations. In addition, all of the costs of ensuring a fiscal recovery are the responsibility of the district and are added to the amount of the state loan. Therefore, a state loan will be much larger than what the district would otherwise need to borrow locally if it had been able to solve its own fiscal crisis.

Since 1991, the state has provided nine districts with emergency loans. Most recently, SB 533 (Wright), Chapter 325, Statutes of 2012 authorized \$29 million (General Fund) for an emergency loan to the Inglewood Unified School District (IUSD). The bill also authorized the school district to augment the emergency apportionment with an additional \$26 million through the California Infrastructure and Economic Development Bank (I-Bank). Inglewood Unified School District is the only district under state administration at this time.

**STAFF COMMENTS/QUESTIONS**

The overall fiscal health of districts has improved in recent years due to the improving economy, which has resulted in districts restoring and expanding programs cut during the recession. However, FCMAT has raised concerns that the period of significant expansion is behind us, while many districts have made commitments built on continued expansion. Although negative and qualified certifications are down significantly from their peak numbers during the recession, the number of qualified certifications has doubled since last year. There are typically multiple factors that cause a district to be unable to meet its financial obligations and receive a negative or qualified certification. Some of these factors include: declining enrollment, an increase in charter schools and charter school enrollment, increased STRS and PERS costs, and collective bargaining agreements that are beyond what the district can afford. Each school district's LCFF funding also has an impact on their financial situation.

FCMAT is urging districts to contain costs at this time, although they recognize this is difficult within the new LCAP process. The Legislature should continue to closely monitor the fiscal health of LEAs, especially with Proposition 98 growth beginning to slow.

Suggested Questions:

- What are the major factors causing districts to receive a negative or qualified certification? How is FCMAT working with these districts to ensure they do not become insolvent?
- How would the Governor's deferral proposal impact school districts? Could this be problematic for some districts?
- How has FCMAT's role changed with the implementation of the LCFF and LCAP?

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**Staff Recommendation: Information Only**

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