California State Assembly

Assembly Budget Agenda

Assembly Budget Subcommittee No. 3 on Education Finance

Assemblymember David Alvarez, Chair

Wednesday, March 5, 2025
1:30 P.M. – State Capitol, Room 444

Items To Be Heard		
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6100	**California Department of Education** **Proposition 98: All Agencies**	**2**
	Opening Remarks: Tony Thurmond, State Superintendent of Public Instruction	
Issues	1. Proposition 98 Guarantee 2. Public School System Stabilization Account Overview 3. Education Funding Deferrals 4. Student Support Discretionary Block Grant 5. State of School Fiscal Health	2 12 15 17 20

Public Comment will be taken in person after the completion of all panels and any discussion from the Members of the committees.

Items To Be Heard

6100 California Department of Education
Proposition 98: All Agencies

Issue 1: Proposition 98 Guarantee & Proposals

This issue will cover the Proposition 98 guarantee, as projected in the Governor's Budget, for the 2023-24, 2024-25, and 2025-26 Budget years. This issue will also cover the Governor's Budget proposals impacting the guarantee calculation, including Universal Transitional Kindergarten (UTK) enrollment, and Maintenance Factor payments and balance.

Panel

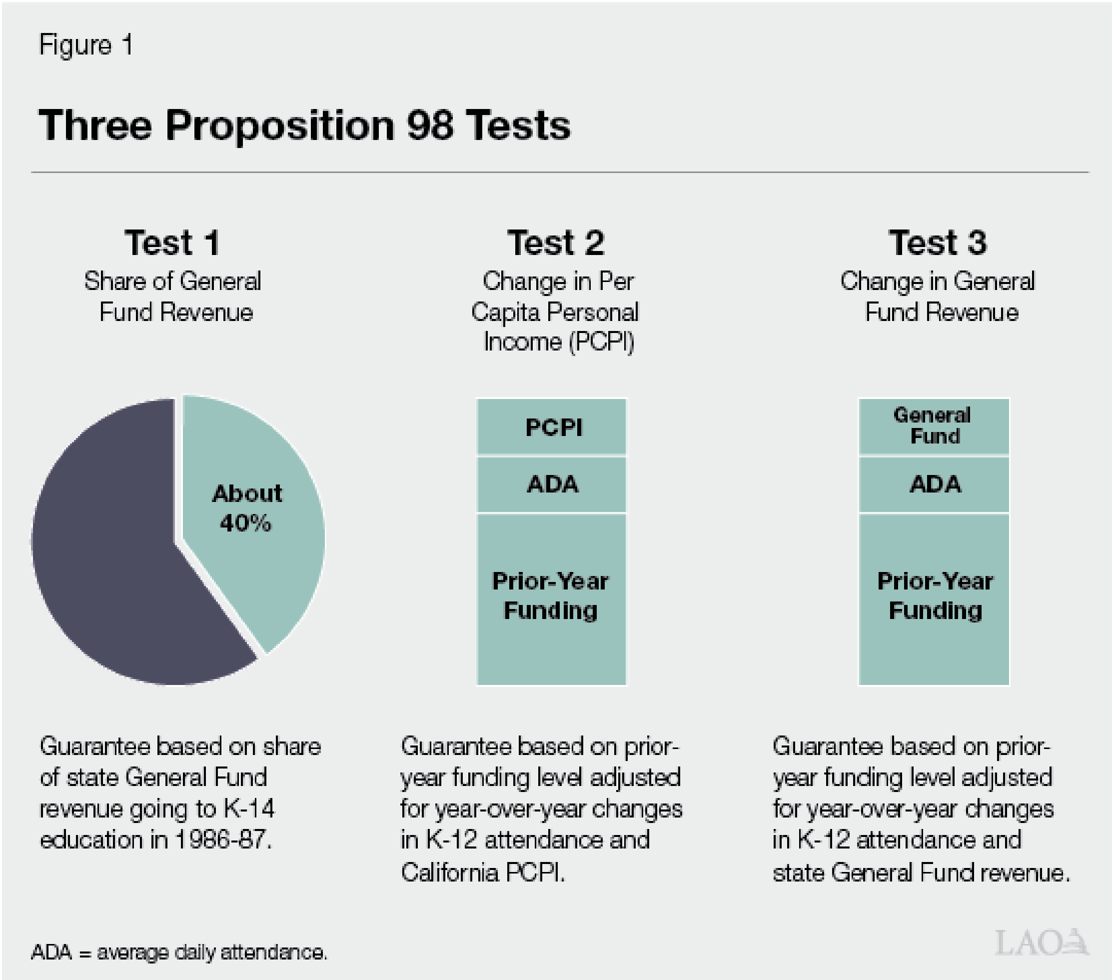
- Alex Shoap, Department of Finance (DOF)
- Kenneth Kapphahn, Legislative Analyst's Office (LAO)

Background

The State Constitution was amended by California voters, through Proposition 98 in 1988, to create a minimum "guarantee" for public school and community college funding. Proposition 98 provides K-14 schools with a guaranteed funding source that grows each year with the economy and the number of students. The guarantee consists of state General Fund and local property tax revenue.

The Constitution sets forth three main "tests" for calculating the Proposition 98 minimum guarantee. Each test takes into account certain inputs, including General Fund revenue, per capita personal income, and student attendance (LAO, Figure 1, on the next page). Test 1 links school funding to a minimum share of General Fund revenue, whereas Test 2 and Test 3 build upon the amount of funding provided the previous year. The Constitution sets forth rules for comparing the tests, with one of the tests becoming operative and used for calculating the minimum guarantee that year.

Although the state can provide more funding than required, it usually funds at or near the guarantee. With a two-thirds vote of each house of the Legislature, the state can suspend the guarantee and provide less funding than the formulas require that year.



The state makes an initial estimate of the guarantee when it enacts the annual budget, but this estimate typically changes as the state updates the relevant Proposition 98 inputs.

When the guarantee exceeds the initial budget estimate and appropriation, the state must make a one-time payment to "settle up" for the difference. If the guarantee drops, the state can reduce spending to the lower guarantee. After making these revisions, the state finalizes its calculation of the guarantee through an annual statutory process called "certification." Certification involves the publication of the underlying Proposition 98 inputs and a period of public review. The most recently certified year is 2022-23.The process of 2023-24 certification will begin in May of 2025.

2023-24 Proposition 98 Guarantee Suspension

Suspension and Maintenance Factor. The Legislature, with a two-thirds vote, can suspend the Proposition 98 minimum guarantee for a fiscal year. Under a suspension, the Legislature can appropriate K-14 funding at whatever level it chooses, but creates "maintenance factor" obligations for the out-years.

The state creates maintenance factor when Test 3 is operative or the Legislature suspends the guarantee. The maintenance factor obligation equals the difference between the actual level of funding provided and the higher Test 1 or Test 2 level. Moving forward, the state adjusts the obligation annually for changes in student attendance and per capita personal income. In future years, the Constitution requires the state to make maintenance factor payments when General Fund revenue is growing faster than per capita personal income. The size of these payments increases in tandem with faster revenue growth. These payments add to the guarantee in the future and accelerate school funding increases until the obligation is paid down.

2022-23 Budget Act Shortfall. In March 2023, the state delayed the deadline for various personal income and corporation tax payments to conform with delays in federal tax deadlines. When the state finally received these payments in November 2023, they showed that revenues for 2022-23 were far below the previous estimate. These lower revenues eventually reduced the Proposition 98 guarantee that year by $9.8 billion—an unprecedented drop for a fiscal year that was already over. This drop led to a debate about whether the state should reduce school and community college funding to the lower guarantee or maintain funding at the higher level it originally approved. A major consideration was that significant changes to 2022-23 would have led to corresponding changes in the Proposition 98 guarantee in 2023-24 and 2024-25.

The final budget agreement involved funding schools above the revised guarantee in 2022-23, suspending the guarantee in 2023-24, withdrawing funds from the Proposition 98 "Rainy Day Fund," and shifting payments across fiscal years.

Suspension of the Proposition 98 Guarantee in 2023-24. Under the previously enacted budget, the Proposition 98 guarantee would have required the state to provide $106.8 billion in funding in 2023-24. The state determined it could not afford to fund schools and community colleges at this level and suspended the guarantee that year.

Trailer bill legislation set the funding level for 2023-24 at $98.5 billion. By suspending the guarantee, the state automatically created an obligation—known as maintenance factor—equal to the $8.3 billion difference between the suspended funding level and the guarantee. Use of the Prop 98 Rainy Day Fund ensured actual school funding in 2023-24 was not reduced during this Suspension, as covered in Issue 2 of this agenda.

Rebenching the Proposition 98 Guarantee & Transitional Kindergarten

Modifications to the Proposition 98 guarantee calculations, beyond the constitutional Prop 98 inputs under either of the three "tests," are commonly known as a "rebench." The state constitution is silent on whether the Proposition 98 minimum guarantee can be adjusted to account for policy changes, but a rebench has been adopted in prior years to prevent certain state actions from having unintended consequences on the Proposition 98 minimum guarantee. In prior rebench budget actions, the state adjusted the total Guarantee for the single fiscal year value of the shift, thereby ensuring that it achieved an associated dollar–for–dollar impact. For example, the removal of child care programs from the Proposition 98 calculation resulted in a $1.1 billion reduction in the guarantee, and the shift of responsibility for student mental health services from counties to school districts resulted in a $222 million increase in the guarantee.

The 2021-22 Budget agreement included shared Administrative and Legislative intent to rebench the Proposition 98 guarantee to accommodate the growth of average daily attendance (ADA) for Universal Transitional Kindergarten (UTK). This agreement and statutory timeline would add new UTK enrollment in Budget years 2022-23, 2023-24, 2024-25, and 2025-26. The intent is that the Proposition 98 guarantee would be rebenched in each year of statutory UTK eligibility growth, to reflect the actual costs of the new grade's ADA. The intent of the agreement is to create adequate room inside the guarantee in each year TK enrollment is required to expand in statute, and then adjust for actual attendance impacts.

Governor's 2025-26 Budget

The Governor's January Budget estimates a Proposition 98 General Fund funding level of $98.5 billion in 2023-24, $119.2 billion in 2024-25, and $118.9 billion for the 2025-26 Budget Year. This represents a total of $7.5 billion in estimated growth over the three-year budget window, compared to the 2024-25 Budget Act (LAO Figure 4 below).

The 2023-24 Proposition 98 funding level remains at the suspension level of $98.5 billion. This suspension created a maintenance factor of $8.3 billion.

Compared with the June 2024 budget estimates, the administration's estimate of the minimum guarantee is up $3.9 billion (3.4 percent) in 2024-25, and remains in Test 1. The increase in the Current Year guarantee also includes a $1.6 billion increase in the required maintenance factor payment. Under the administration's estimates, the state would make a $5.6 billion total maintenance factor payment, leaving $2.7 billion outstanding.

Figure 4

Proposition 98 Key Inputs and Outcomes Under Governor's Budget

(Dollars in Millions)

	2023-24	2024-25	2025-26
Minimum Guarantee			
General Fund	$67,093	$86,619	$84,603
Local property tax	31,392	32,569	34,321
Totals	**$98,484[a]**	**$119,188**	**$118,923**
Change From Prior Year			
General Fund	-$6,853	$19,526	-$2,016
Percent change	-9.3%	29.1%	-2.3%
Local property tax	$1,618	$1,177	$1,752
Percent change	5.4%	3.8%	5.4%
Total guarantee	-$5,235	$20,703	-$264
Percent change	-5.0%	21.0%	-0.2%
General Fund Tax Revenue[b]	$188,918	$206,495	$213,621
Growth Rates			
K-12 average daily attendance	0.8%	1.0%	0.7%
Per capita personal income (Test 2)	4.4	3.6	6.4
Per capita General Fund (Test 3)[c]	7.3	9.6	3.8
Maintenance Factor			
Amount created (+) or paid (-)	$7,960	-$5,637	—
Total outstanding[d]	7,960	2,695	$2,887
Proposition 98 Reserve			
Deposit (+) or withdrawal (-)	-$8,413	$1,157	$376
Cumulative balance	—	1,157	1,533
Operative Test	Suspended	1	1

[a] The June 2024 budget suspended the guarantee and set forth this amount as the intended funding level.

[b] Excludes nontax revenues and transfers, which do not affect the calculation of the guarantee.

[c] As set forth in the State Constitution, reflects change in per capita General Fund plus 0.5 percent.

[d] Includes adjustments for growth in per capita personal income and K-12 attendance as required by the State Constitution.

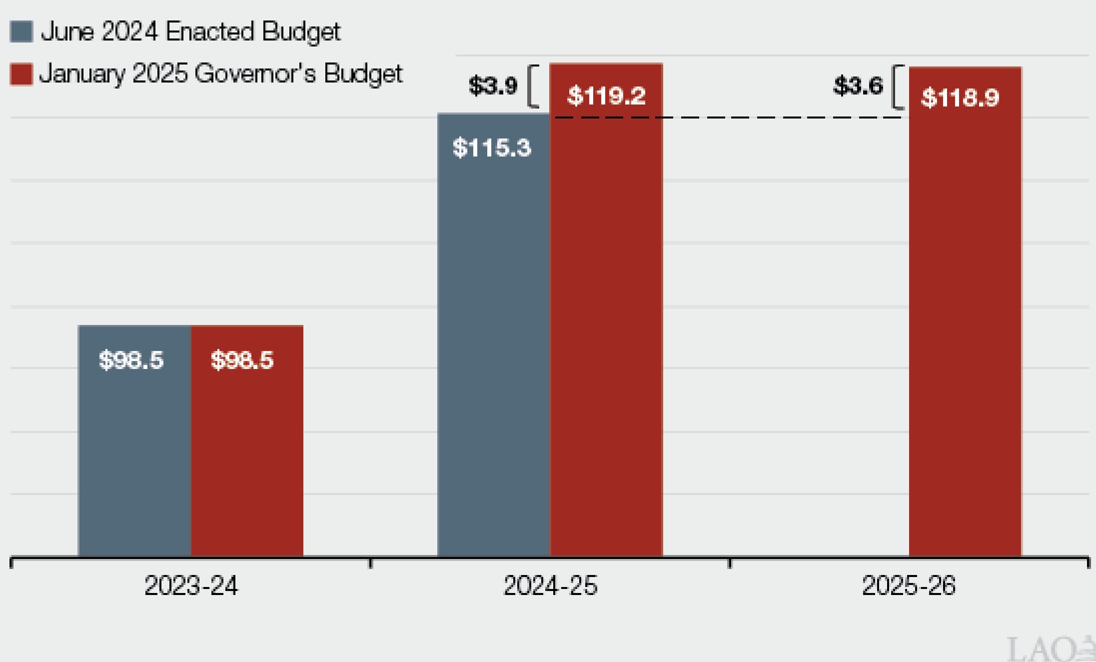
Source: LAO

The Administration estimates the guarantee remains in Test 1, at an estimated $118.9 billion in 2025-26, an increase of $3.6 billion (3.2 percent) relative to the 2024-25 enacted budget level (LAO Figure 3 below). The state does not make maintenance factor payments in the Budget Year because General Fund revenues are not growing as quickly as per capita personal income.

Figure 3

Proposition 98 Exceeds Previous Budget Level in 2025-26

(In Billions)

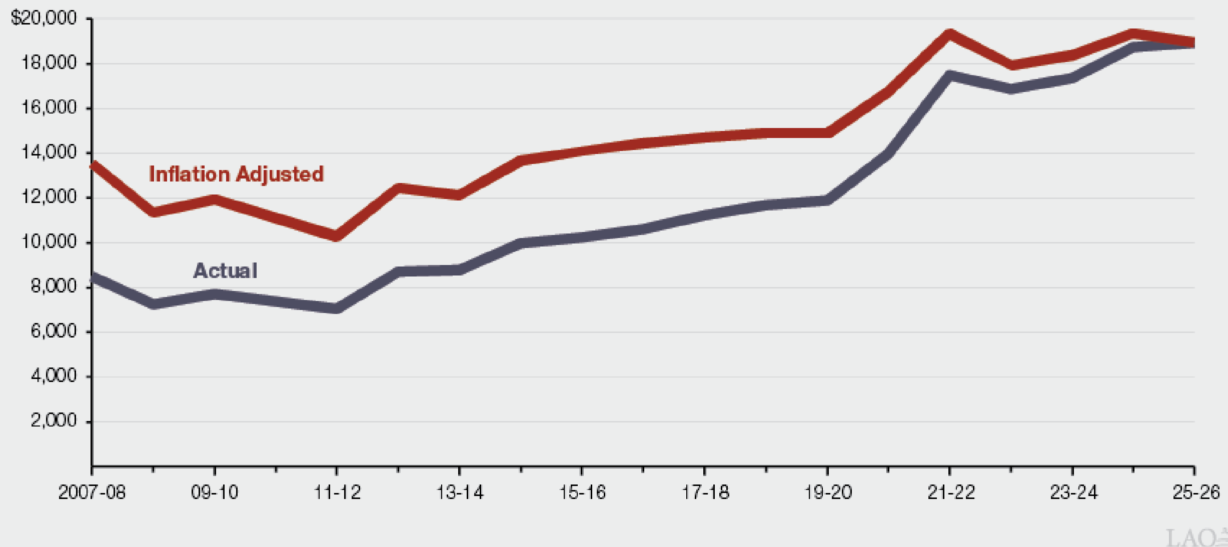


Under the Governor's budget, total Proposition 98 funding for schools would be $18,935 per student in 2025-26, an increase of $203 (1.1 percent) over the revised 2024-25 level. As LAO Figure 6 shows, school funding peaked following rapid increases in 2020-21 and 2021-22. Since that time, funding has been roughly flat after adjusting for inflation.

Figure 6

Proposition 98 Funding Per Student Is Up Notably Since 2019-20

Through 2025-26 Under Governor's Proposed Budget



Universal Transitional Kindergarten Rebench

The January Budget estimates $118.9 billion for Proposition 98 funding for 2025-26, which includes an $875.3 million rebench of the guarantee to reflect the final year of Universal Transitional Kindergarten enrollment growth. According to DOF, this reflects the approximately 60,000 additional children eligible for UTK in the final implementation year.

The actual 2025-26 enrollment rate and ADA in TK may impact the final rebench amount, which is estimated at a total of $2.4 billion, over the four years of UTK rollout.

Settle-Up Proposal

In the January Budget, total proposed spending on schools and community colleges in 2024-25 is approximately $1.6 billion less than the DOF revised estimate of the Proposition 98 guarantee.

The difference between the Governor's Prop 98 estimate and proposed total spending would create a $1.6 billion settle-up obligation the state would need to pay in the future if revenues remain consistent with the January projections. The administration indicates the state would address the "settle-up" in the June 2026 budget plan—after the state makes its final revenue estimate for 2024-25, recalculates the guarantee, and determines the amount actually owed to schools. According to the administration, the delay is intended to mitigate the risk that the guarantee drops, as experienced during the uncertainties of the 2022-23 Budget Act.

LAO Comments

Guarantee Is Highly Sensitive to Revenue Changes in 2024-25. To the extent General Fund revenue differs from the estimates in the Governor's budget for 2024-25, the guarantee would increase or decrease nearly 95 cents for each dollar of higher or lower revenue. This high level of sensitivity exists because Test 1 is operative and the state is paying maintenance factor. Specifically, for each dollar of higher or lower revenue, the Test 1 requirement would change by nearly 40 cents, and the maintenance factor payment would change by almost 55 cents. One consequence of this sensitivity is that the guarantee could vary much more than usual from the estimates in the Governor's budget. Moreover, higher or lower revenue estimates in 2024-25 would have relatively little effect on programs funded outside of Proposition 98 because nearly all of the increase or decrease would be absorbed by changes in the guarantee. Since the adoption of Proposition 98 in 1988, this level of sensitivity has occurred only twice before (in 2012-13 and 2014-15).

Guarantee Is Moderately Sensitive to Revenue Changes in 2025-26. Similar to 2024-25, Test 1 is likely to remain operative in 2025-26 even if General Fund revenue or other inputs vary from the estimates in the Governor's budget. In contrast to 2024-25, the state is unlikely to pay any maintenance factor because state revenues are unlikely to outpace the growth in per capita personal income. (The administration estimates a 3.3 percent increase in per capita General Fund revenues and a 6.4 percent increase in per capita personal income. Our November outlook estimate for per capita personal income was even higher at 8.4 percent. The state will compute the final per-capita income factor for 2025-26 based on growth from the last quarter of 2023 to the last quarter of 2024.) In Test 1 years without maintenance factor payments, the guarantee is moderately sensitive to changes in General Fund revenue—increasing or decreasing about 40 cents for each dollar of higher or lower revenue.

Los Angeles Fires Likely to Have Modest Negative Effect on Statewide Property Tax Estimates. The Los Angeles fires burned more than 37,000 acres and destroyed thousands of homes and other structures. Affected property owners must continue paying property taxes but are eligible for a reduction in their bills to reflect the lower market value of their properties. Our preliminary assessment is that the fires will reduce property tax revenue by $100 million to $200 million in 2025-26. (A partial-year reduction in 2024-25 also is likely.) This reduction will fade over time as debris is removed and homes are rebuilt. Schools receive about 30 percent of the property tax revenue collected in Los Angeles County, meaning the school share of this reduction in 2025-26 will likely range from $30 million to $60 million. For individual districts, state law generally provides an automatic increase in General Fund to offset the reduction. At a statewide level, however, lower property tax revenue would reduce the overall funding available for schools under Proposition 98. This reduction is relatively modest compared with the $34.3 billion in property tax revenue schools would receive under the Governor's budget estimates for 2025-26.

Maintain One-Time Budget Cushion. A one-time cushion helps mitigate future drops in the Proposition 98 guarantee and protect ongoing programs. Regardless of the specific proposals the Legislature decides to fund, we recommend maintaining a cushion at least as large as the one proposed by the Governor ($2.1 billion across all school and community college programs). This approach means the final budget would have a mix of one-time and ongoing spending, which the Legislature could use to address its short-term and long-term spending priorities.

Address Volatility in 2024-25 Guarantee Proactively. The Proposition 98 guarantee in 2024-25 is unusually volatile and uncertain. We recommend adopting a plan that addresses the downside risk proactively. Although the Governor's settle-up proposal is a viable option, we think the most compelling approach is to make a discretionary reserve deposit that could be rescinded if revenues fall short. This approach increases state costs this year but reduces costs in the future when the state is likely to face a large deficit. In selecting among the Governor's proposal, the discretionary deposit, or the other alternatives, the Legislature will need to consider its plan for balancing the state budget now and in the future.

Staff Comments

The current year and Budget Year Proposition 98 funding levels and relevant proposals will be considered as part of the Final Budget guarantee estimate, and so no action will be recommended until after the May Revision.

Balancing Volatile Revenues & Stable School Funding. Due to the volatile nature of state revenue growth, significant one-time Prop 98 funding has become a common budget opportunity. Unfortunately, one-time funding can be treated as a short-term investment for the state and local LEAs, and can create cliffs in funding for ongoing priorities.

In light of the large, projected, one-time funds available for Prop 98 purposes, and many expiring, or near-expiring one-time investments (UPK planning, Educator Effectiveness Block Grant, Community Schools), how could one-time funds create ongoing-like pathways to sustainability and coherence with local LEA goals?

Legislative Priorities & Opportunities. The current year Proposition 98 growth may allow for legislative bills funded "contingent on appropriation" to be funded with one-time funding. For example, the full costs of the new Ethnic Studies graduation requirements could be funded over a long multi-year period, using one-time funds for ongoing-like purposes.

Suggested Questions:

1. Is it legal to adopt a June Budget that does not fully appropriate the estimated Prop 98 guarantee?

2. What is the best way to address the "new normal" of large one-time surplus revenues, year over year?

3. In light of modest UTK enrollment growth patterns to date, and scarce General Fund resources in the Budget Year, should the UTK rebench methodology be more conservative?

4. If the TK rebench is intended to accommodate TK enrollment growth, why is the funding subject to a split with Community Colleges? Shouldn't the rebench amount be removed from the split calculation?

Staff Recommendation: Hold Open.

Issue 2: Public School System Stabilization Account Overview & Proposals

This issue will cover the Public School System Stabilization Account (PSSSA) contributions in the January Budget.

Panel

- Alex Shoap, Department of Finance
- Kenneth Kapphahn, Legislative Analyst's Office

Background

Proposition 2 (2014) established the PSSSA or “Prop 98 Rainy Day Fund”, a constitutional reserve account within Proposition 98. The purpose of this reserve is to set aside some Proposition 98 funding in relatively strong fiscal times to mitigate funding reductions during economic downturns. Prop 98 Rainy Day Fund can grow to a maximum of 10% of the Proposition 98 guarantee in the Budget Year. A deposit to the PSSSA was first triggered in the 2019-20 budget. Withdrawals are attributed to the Prop 98 guarantee in the deposit year.

The 2021-22 budget plan triggered a statutory cap on school district reserves in the 2022-23 fiscal year. The local cap applies the year after the balance in the Prop 98 Rainy Day Fund exceeds 3 percent of the Proposition 98 funding allocated to TK-12 schools. The cap prohibits medium and large districts—those with more than 2,500 students—from holding general purpose reserves that exceed 10 percent of their annual expenditures. Districts can respond to the cap by designating their reserves for specific purposes, seeking exemptions from their county offices of education (COEs), or spending down their reserves. When the local reserve cap went into effect in 2022-23, the LAO estimated that approximately 265 LEAs statewide would be impacted, and that districts held a total of $21 billion in reserves.

Under the enacted 2023-24 Budget, the state deposited a total of $7.5 billion into this Prop 98 Rainy Day Fund across the 2021-22 through 2023-24 period—an increase of $1.3 billion compared with the estimates made in June 2022. These deposits brought the total balance in the Prop 98 Rainy Day Fund to $10.8 billion in 2023-24—10 percent of the Proposition 98 guarantee, the maximum amount allowed.

The Constitution provides two Prop 98 Rainy Day Fund withdrawal options. The first requires the state to withdraw funds from the Fund if the guarantee is below the prior-year funding level, as adjusted for student attendance and inflation. The amount withdrawn equals the difference between the prior-year adjusted level and the actual guarantee, up to the full balance in the Prop 98 Rainy Day Fund. If the Governor declares a budget emergency, the Legislature may withdraw any amount from the reserve or suspend required deposits. Unlike other state reserve accounts, the Prop 98 Rainy Day Fund is available only to supplement the funding schools and community colleges receive under Proposition 98.

2024-25 Budget Act

The suspension of the Prop 98 guarantee in 2023-24 set a minimum guarantee funding level for schools below the appropriated 2022-23 level. This lower 2023-24 funding level triggered the Prop 98 Rainy Day Fund required withdrawal threshold, and the state withdrew the entire balance of $8.4 billion. The 2023-24 adjusted budget allocated $7.6 billion of this amount for schools and $788 million for community colleges. For both segments, these withdrawals prevented an actual reduction in state funding.

The final 2024-25 Budget made a new Prop 98 Rainy Day Fund deposit of nearly $1.1 billion. This deposit was not mandatory under revenue assumptions, but was designed to count toward any deposit that becomes required when the state trues-up its reserve calculation for 2024-25, as part of the Prop 98 certification process.

Governor's 2025-26 Budget

The January Budget estimates the state must make Prop 98 Rainy Day Fund deposits of $1.2 billion in 2024-25 and $376 million in 2025-26, under the requirements of Prop 2. These deposits would bring the balance in the reserve to $1.5 billion. The mandatory deposit in 2024-25 would replace a $1.1 billion discretionary deposit the state made as part of the June 2024 budget.

This level of funding does not trigger the statutory 10% cap on local school district reserves in either fiscal year. This Prop 98 Rainy Day Fund calculation assumes the $1.6 billion "settle-up" that is unallocated in the 2024-25 January Budget spending proposals, is part of the guarantee calculation.

LAO Comments

Proposition 98 Reserve Deposit Highly Sensitive to Capital Gains Estimates in 2024-25. Whereas the guarantee is highly sensitive to changes in General Fund revenue in 2024-25, the required Proposition 98 Reserve deposit is highly sensitive to changes in revenue from capital gains. Specifically, the required deposit would increase or decrease by nearly 95 cents for each dollar of higher or lower capital gains revenue. This requirement means that an increase or decrease in the guarantee might not translate into more or less funding for school and community college programs. If the guarantee were to increase based on higher revenues, but these higher revenues came mainly from capital gains, the state would need to deposit most of the increase into the reserve.

Proposition 98 Reserve Deposit Likely Not Required in 2025-26. The Proposition 98 Reserve formulas require the state to meet several conditions before a deposit becomes mandatory. One condition is that the calculation of the guarantee under Test 1 must exceed the calculation under Test 2. Under our estimates, Test 2 is a few billion dollars higher than Test 1 in 2025-26, meaning no reserve deposit would be required that year. The state will receive updated data in March clarifying whether this condition is met. If the revised data show that a deposit is not required, the state could still make a discretionary deposit equal to the amount proposed by the Governor (or any other amount).

Staff Comments

Suggested Questions:

1. If current year revenue projections continue to be volatile but growing at May Revision, could a discretionary PSSSA contribution, that is contingent on actual final revenues, be a prudent way to protect against possible over-spending?

2. Under the LAO multi-year Prop 98 forecast, the 2026-27 fiscal year could be in Test 3, incur maintenance factor, and require a PSSSA withdrawal all in the same year, while still increasing over all school funding. How would the LAO recommend preparing for this possible confluence of one-time spending, if it’s not a Rainy Day?

Staff Recommendation: Hold Open.

Issue 3: Education Funding Deferrals

This issue will cover prior state Budget deferrals to local education agencies' Proposition 98 funding, and repayment of these deferrals, as proposed in the Governor's Budget, for the 2024-25 and 2025-26 Budget years.

Panel

- Alex Shoap, Department of Finance
- Kenneth Kapphahn, Legislative Analyst's Office

Background

The Final Budget Act last year, utilized a series of Prop 98 payment "deferrals" to align school and community college funding with the levels agreed upon in the adopted budget for each fiscal year. First, the budget shifted $2.6 billion in payments originally counted in 2022-23 to the 2023-24 fiscal year. Second, the budget deferred $4 billion in payments originally counted in 2023-24 to the 2024-25 fiscal year. Neither action affects cash flow for schools or community colleges.

Finally, the Budget Act defers $487 million in payments from June 2025 to July 2025, thereby moving the associated costs from the 2024-25 fiscal year to 2025-26. This deferral is divided about equally between schools and community colleges. Unlike the other two shifts, this deferral will affect cash flow by delaying a portion of the payment districts normally receive in June for several days. The law allows school districts to be exempt from this deferral if they can show the delay would cause fiscal insolvency.

For PreK-12 school funding, the Budget specifically deferred $247 million in payments from 2024-25 to 2025-26. This deferral moves a portion of the payment schools typically receive at the end of June 2025 to the beginning of July 2025.

Governor's 2025-26 Budget

The Governor's January Budget proposes to maintain the deferral of funds from 2024-25, and pay off the entire $247 million deferral to PreK-12 education and restore the regular payment schedule beginning in 2025-26.

LAO Comments

Eliminating the Deferral Is Prudent. The Governor's proposal to eliminate the deferral would make the budget more resilient by aligning the ongoing cost of school programs with the ongoing funding necessary to support those programs. It also would improve local cash flow and simplify state and school accounting.

Adopt Proposal to Eliminate the Deferral. The Governor's proposal to eliminate the deferral is prudent budgeting, and we recommend adopting it. Whereas the Governor proposes to eliminate the deferral beginning in 2025-26, the Legislature could consider early action to eliminate the deferral in 2024-25. This accelerated approach would eliminate the state and local workload associated with calculating each district's share of the June 2025 deferral and processing requests for exemptions. If the Legislature were interested in this approach, it would need to act by early April.

Staff Comments

Deferrals have become a value recessionary tool, for leveraging local reserves and borrowing power in order to prevent actual LEA funding reductions. Repaying this "wall of debt" as a priority, during years of ongoing Prop 98 growth, is consistent with legislative intent during prior Budget enactments.

Staff Recommendation: Hold Open.

Issue 4: Student Support Discretionary Block Grant

This issue will cover the Governor's Budget proposal to use $1.773 billion in Proposition 98 funding for a Student Support and Professional Development Discretionary Block Grant.

Panel

- Alex Shoap, Department of Finance
- Kenneth Kapphahn, Legislative Analyst's Office

Background

Recent Relevant Block Grants:

Educator Effectiveness Block Grant

The 2021-22 Budget Act appropriated $1.5 billion for educator professional development purposes, through 2025-26. Funds were allocated based on LEA full-time certificated and classified staff counts.

According to CDE guidance: a school district, county office of education, charter school, or state special school shall expend Educator Effectiveness Block Grant (EEF) funds to provide professional learning for teachers, administrators, paraprofessionals who work with pupils, and classified staff that interact with pupils, with a focus on any of the following areas: coaching and mentoring, standards-aligned instruction, accelerated learning, social-emotional learning and mental health, positive school climate, inclusive practices, English learners' language acquisition, professional learning networks, ethnic studies instruction, early childhood education instruction, and beginning teacher supports, as defined.

Each local governing board must adopt a public plan that describes how funding will be spent. CDE will receive final expenditure reports on these funds in 2026.

Arts, Music, Instructional Materials Discretionary Block Grant

The final 2022-23 budget included $3.3 billion in one-time funding for an Arts, Music, Instructional Materials Discretionary Block Grant. LEAs may use these funds for instructional materials and professional development related to school climate and various academic subject areas, including visual and performing arts. Funds may also be used for operational staffing costs, materials and equipment to keep schools safely open during the COVID-19 pandemic, and purchasing diverse and culturally relevant books and text that support independent student reading. Funding is distributed on a per-student basis and will be available through 2025-26. Each local governing board must adopt a public plan that describes how funding will be spent. CDE will receive final expenditure reports on these funds in 2026.

Governor's 2025-26 Budget

The Governor proposes $1.773 billion in total funding to be used one-time, to create a new Student Support and Professional Development Discretionary Block Grant, for use through the 2028-29 school year.

LEAs would receive funding based on their average daily attendance in 2024-25—$323 per student based on current attendance estimates.

Trailer legislation would direct districts to use the grant to "address rising costs" and fund specified state priorities, including (1) teacher professional development, (2) teacher recruitment and retention activities, (3) career pathways, and (4) dual enrollment programs. According to the administration, the funding is intended to be entirely discretionary. LEAs would be able to spend the grant through 2028-29.

LAO Comments

***Adopt Discretionary Block Grant With Some Refinements*.** A discretionary block grant would help districts support local programs and address various costs. We recommend adopting a version of the Governor's proposal with some refinements. Regarding the amount, the $1.8 billion proposed by the Governor is reasonable, but the Legislature could consider higher or lower amounts to conform with its overall plan for school funding. For example, the Legislature could reduce the amount if the guarantee decreases by May or increase the amount if it rejects some of the Governor's other proposals. Regardless of the final amount, we recommend modifying the accompanying language in three ways:

Clarify Grant Is Discretionary. We recommend modifying the language to clarify that the funding is entirely discretionary. This modification would align the language with the intent of the proposal and allow districts to focus on the local programs and costs that represent their highest priorities.

Refine Intent Language on Costs. Districts indicate that intent language sometimes influences how they use a grant, even if the funding is discretionary. We recommend modifying the language related to "rising costs" so that the grant explicitly references fiscal liabilities and temporary costs. Examples could include technology updates, facility improvements, and one-time insurance increases. This change would encourage districts to consider the costs that one-time funds are best suited to address.

Adopt Standard Mandate Offset Language. A few districts have claims for unreimbursed state mandates, generally pre-dating the creation of the mandates block grant in 2012-13. The state routinely adopts language specifying that any one-time discretionary funds these districts receive count toward their outstanding claims. We recommend adding this language to help pay down the mandates backlog.

Staff Comments

Like the $1.6 billion in unappropriated funds for the Current Year, this $1.8 billion discretionary block grant raises the question of priorities for large amounts of one-time funding availability. The decision point before the Legislature, is the value of targeted versus discretionary funding for schools.

In light of other expiring block grants that were targeting legislative and state priorities, such as educator effectiveness, and high-quality instruction, are there aspects to prior block grants that should be retained? For example, the Educator Effectiveness Block Grant prohibits LEAs from charging employees fees for professional development and induction programs.

Suggested Questions:

1. What is the risk, in light of recent large, discretionary block grants, in providing LEAs with a new large one-time block grant?

2. Are there any estimates on the volume of ongoing costs being supported with existing one-time grants? The role of one-time discretionary grants in delaying budget scaling decisions necessary due to declining enrollment?

3. Is there a value in using the Local Control Funding Formula (LCFF) for one-time discretionary block grants allocation formulas, rather than each block grant having a different distribution pattern?

4. Is the timeframe for LEA expenditure too short, in light of fully discretionary nature of block grant, and the sheer volume of other recent one-time funds like ESSER and the Arts and Music Block Grant? Is there a reason for the three-year timeline?

Staff Recommendation: Hold Open.

Issue 5: State of School Fiscal Health (Information Only)

The Fiscal Crisis and Management Assistance Team (FCMAT) is California's public resource to monitor and guide Local Education Agency fiscal health. This hearing will provide FCMAT's annual address to update the Assembly on the state of school fiscal health.

Panel

- 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. AB 1200 also created the Fiscal Crisis and Management Assistance Team (FCMAT), recognizing the need for a statewide resource to help monitoring agencies in providing fiscal and management guidance.

FCMAT's work is divided into six categories:

Management Assistance (EC 42127.8(d)(1)) for K12 and community colleges. The work is focused on preventive measures and solving LEA-specific issues at the lowest level before they grow. A significant portion of management assistance is requested by the LEA and supported on a fee for service model. A smaller portion of management assistance is performed under the automatic triggers and is limited to Fiscal Health Risk Analysis studies supported by state appropriations. Management assistance can include interventions driven by fiscal distress. All management assistance work culminates in a written report posted on the FCMAT website.

Professional Learning (includes Product Development) (EC 42127.8(d)(2) – (4)) for K12 and community colleges. Training is provided directly by FCMAT and in collaboration with private partners. Training provided directly by FCMAT is provided free of charge to LEA personnel. Professional learning includes traditional training sessions (i.e., fiscal oversight training), year-long programs (i.e., CBO Mentor Program), the provision of application-based tools (i.e., LCFF calculators and Projection-Pro), and manuals and guides. Professional Learning is a key element of FCMAT's focus on preventive measures; ensuring the most qualified personnel with the right training and tools are in positions such as CBO.

AB 139 Reviews (EC 1241.5) for fraud, misappropriation of funds and other illegal fiscal practices in school districts and charter schools. While statute does not designate FCMAT as the provider of AB 139 reviews, the budget does make an annual appropriation to FCMAT to reimburse county superintendents for the work. FCMAT provides nearly one-hundred percent of the AB 139 reviews.

Fiscal Crisis (EC 41320 – 41329) includes numerous aspects of assisting and evaluating school districts in fiscal crisis. This work can best be summarized as work in various stages of fiscal crisis leading to receivership including pre-receivership activities, receivership activities, comprehensive reports, identifying and vetting trustee/administrator candidates and providing general counsel.

California School Information Services (CSIS) (EC 49080) is a service of FCMAT. CSIS work includes an annual scope of work in partnership with CDE for the California Longitudinal Pupil Achievement Data System (CALPADS) and product development, maintenance and operations for the Standardized Account Code Structure (SACS) System Replacement Project. CSIS plays an integral role in the new Cradle-to-Career Data System (C2C) Governing Board, with the CSIS's chief operating officer serving as the C2C board chair. CSIS developed and maintains the Ed-Data.org website, and provides technical support for the internal operations of both FCMAT and, under contract to, the California Collaborative for Educational Excellence (CCEE).

Other includes the overall governance and leadership of the organization (EC 42127.8), interface with state and private partners, internal accounting and planning. This includes the annual J90 reporting (Salary and Benefit Schedule for the Certificated Bargaining Unit) capturing information from 80% of school districts and county offices of education covering 95.6% of non-charter ADA. Further, the "other" category includes FCMAT's role with the Education Audit Appeals Panel (EAAP) (EC 14502.1, 41344 and 41344.1).

FCMAT publishes an annual report each fall summarizing the activities of the prior fiscal year and providing other relevant information about the organization:
https://www.fcmat.org/PublicationsReports/Annual%20Report%202023-24%20final.pdf

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There are several defined "fiscal crises" that can interventions 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. 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.

Emergency Loans

In most cases, the assistance provided by county offices of education and FCMAT 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 can be provided by the state through a legislative appropriation. Accepting a state loan is not without consequence, however. The county superintendent 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 county 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. Inglewood Unified School District is the most recent LEA to receive emergency apportionments in 2012. Since 2019 Inglewood Unified School District and Oakland Unified School District have received additional state apportionments through AB1840 (2018). Oakland USD required a $10 million AB1840 additional apportionment in the 2021-22 Budget, and is continuing to struggle with forecasted deficits, despite robust one-time funds.

The following LEAs continue to have outstanding emergency loans: Inglewood USD, South Monterey Union Joint High, Oakland USD, and Vallejo USD.

No new LEAs are recommended for state assistance at this time.

FCMAT will present on current solvency trends, including AB 218 settlements, fire-impacted LEAs, and the continued struggle of small LEAs to address declining enrollment trends.

Staff Comments

Staff Recommendation: Information Only.