

California State Assembly



Assembly Budget Agenda

Assembly Budget Subcommittee No. 3 on Education Finance

Assemblymember David Alvarez, Chair

Tuesday, February 24, 2026

9:00a.m. – State Capitol, Room 447

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Items To Be Heard

6100 California Department of Education 7760 Office of Public School Construction

Issue 1: Local Control Funding Formula & Necessary Small Schools Proposal

This panel will provide an overview of the Local Control Funding Formula (LCFF) for public schools, Governor’s Budget proposals for cost-of-living adjustments to the LCFF and categorical programs, and a trailer bill proposal to increase the Necessary Small Schools adjustment.

Panel

- Katie Lagomarsino, Department of Finance (DOF)
- Patrick Rochelle, DOF
- Michael Alferes, Legislative Analyst's Office (LAO)

Background

The bulk of funding for school districts and county offices of education for general operations is provided through the Local Control Funding Formula (LCFF) and is distributed based on the number of students served and certain student characteristics, including grade, income, and home language. The state first fully funded the LCFF in 2018-19 and has annually adjusted the LCFF base grant amounts by a cost-of-living adjustment (COLA).

The LCFF is based on student average daily attendance (ADA). The state allocates LCFF funding to school districts and charter schools based on their ADA—the average number of students in class each day throughout the school year.

Statute requires a COLA for LCFF. The COLA rate is based on a price index published by the federal government. This index reflects changes in the cost of goods and services purchased by state and local governments across the country. State law provides an automatic COLA for LCFF unless the constitutionally required Proposition 98 funding level is insufficient to cover the associated costs. In these cases, the law reduces the COLA rate to fit within the available funding. The state applies the COLA to LCFF by increasing the grade span base rates, necessary small schools rates, and the transitional kindergarten staffing adjustment. These rate increases also result in proportional increases to the grade span adjustments and supplemental and concentration grants, since the value of these components are funded as a percentage of the base grant.

Recent Budget Acts have made notable changes to the Local Control Funding Formula:

- 1) Statute includes a requirement that districts track their unspent supplemental and concentration grant funding and use the funding to increase or improve services for English Learning/Low Income (EL/LI) students in future years.
- 2) The concentration grant rate was increased from 55 percent to 65 percent of the base grant, with a requirement that the associated increase in funding must be used by school districts to increase the number of staff that provide direct services to students in schools where more than 55 percent of students are EL/LI.
- 3) Beginning in 2021-22, Universal Transitional Kindergarten implementation has been adding LCFF-based ADA to the K-3 grade span, in addition to a new TK staffing adjustment for lower staff to child ratios.
- 4) The 2022-23 and 2023-24 Budget Acts increased the LCFF base grants by a total of 21.8%, without reference to the statutory COLA, sometimes referred to as a “super-COLA.”
- 5) The 2022-23 Budget Act adjusted the ADA calculation for non-charter LEAs: the state credits school districts with their ADA in the current year, prior year, or the average of three prior years, whichever is higher.
- 6) Beginning in 2022-23, school districts and county offices of education (COEs) are reimbursed for 60 percent of eligible transportation expenditures they reported in the previous year.
- 7) The 2023-24 Budget Act created the Equity Multiplier, with \$300 million ongoing (adjusted by COLA) Proposition 98 funding for school sites with high instability rates, and new accountability provisions for LEAs receiving Equity Multiplier funds.

Necessary Small Schools

State Has Alternative Base LCFF Calculation for Necessary Small Schools. The Necessary Small Schools program provides an alternative LCFF base grant for the ADA in small schools (96 or less ADA for an elementary school and 286 or less ADA for a high school) within small school districts (generally districts with less than 2,500 ADA). To be classified as a necessary small school, schools also must demonstrate that (1) students who attend the school would otherwise be required to travel relatively long distances from their home to attend school, or (2) geographic or other conditions (such as annual snowfall) make busing students an unusual hardship. In 2024-25, the state provided \$147 million for this purpose—an average of about

\$16,800 per student for the roughly 8,700 students attending necessary small schools, in comparison to the \$11,200 per student LCFF base grant.

Necessary Small School Funding Is Based on ADA and Staffing Levels. The Necessary Small Schools allocation uses funding bands based on either a school's ADA or its staffing levels, whichever provides the lesser amount. The number of full-time teachers is used for elementary schools that serve students in grades K-8, while the number of full-time equivalent certificated employees is used for high schools. Districts receive funding for their necessary small schools in place of LCFF base grants, but they receive LCFF base grant funding for all other schools in the district. As with the LCFF base grant, each necessary small school is credited with the greater of their ADA in the current year, prior year, or rolling average of their three prior years. Necessary Small School funding levels are also annually adjusted by the statutory cost-of-living adjustment (COLA). School districts receive supplemental and concentration grant funding for necessary small schools in the same way as the rest of their ADA.

Governor's 2026-27 Budget

\$2.1 Billion for COLA. For 2026-27, the administration estimates the statutory COLA rate is 2.41 percent. The Governor's budget provides \$2.1 billion to cover the associated increase for existing school programs. Of this amount, \$1.9 billion is for the LCFF and \$228.2 million is for categorical programs with a statutory COLA, including special education, state preschool, child nutrition (school meals), foster youth, adults in corrections, and American Indian Education Centers.

Necessary Small Schools Formula. Increases the Necessary Small Schools funding by 20 percent in the Local Control Funding Formula, with \$30.7 million ongoing Proposition 98. This is in addition to a 2.41 percent COLA for the rates, equaling roughly \$3.6 million.

LAO Comments

Local Control Funding Formula & COLA

Funding a COLA Helps Districts Maintain Programs. Districts face cost increases in many parts of their budgets. Most districts spend roughly 80 percent of their operating budgets on personnel costs, including salaries, health benefits, and pensions. Districts have faced pressure in all of these areas over the past few years, including pressure to increase salaries to keep up with inflation. Districts also face higher costs in a few other areas, including notable increases for utilities and insurance. Funding the statutory COLA is a straightforward way to help districts address these costs, balance their budgets, and sustain local programs.

COLA Estimate Is More Uncertain Than Usual. The federal government typically publishes the eight quarters of data used to calculate the COLA on a standard schedule. Due to the fall

2025 government shutdown, the last few quarters of data have been delayed. Specifically, the sixth quarter (normally published in October) was not available in time for the Governor's budget, and the seventh quarter (normally published in January) will not be available until February 20. These delays make the COLA estimate more uncertain and could lead to larger changes in the coming months. For each 0.5 percent increase or decrease in the statutory rate, the associated costs for school programs would change by about \$450 million. Based on the current federal schedule, the state will receive the final quarter and finalize the rate on April 30.

Necessary Small Schools Augmentation

Proposal Is a Simple Way to Target Some Small Districts Within Existing Funding Structure. The Governor's proposal has some merit given it would target districts that likely face greater cost pressures from operating very small schools in geographically isolated parts of the state. If the Legislature is interested in increasing funding for small school districts, increasing Necessary Small School funding is a simple way to do so under the current LCFF structure. Given the proposed 20 percent increase is not aligned with any particular assessment of costs, the Legislature could consider providing a different level of funding based on its priorities. The Legislature may also wish to weigh this proposal against its other education priorities, such as providing funding increases that more broadly benefit schools statewide or proposals that help build budget resiliency.

Legislature Could Consider Alternative Approaches That Target Small School Districts. As mentioned above, one-fifth of the smallest school districts in the state have a necessary small school and would receive additional funding under this proposal. If the Legislature is interested in providing funding in a way that benefits small school districts more broadly, it could consider exploring other options. For example, the Legislature could explore options for modifying LCFF or creating an LCFF add-on that accounts for the density of districts' student populations. These options, however, could be more complex to design and would require additional analysis to ensure they are aligned with a district's cost structure. In addition, these options likely would result in significantly higher costs compared to the Governor's proposal.

If Adopting, Legislature May Want to Consider Addressing "Fiscal Cliff" Issue. If the Legislature is interested in adopting the Governor's proposal, we recommend it modify the proposal to avoid large differences in funding above and below the ADA thresholds. One option is to add a new funding band or extend the range of the final funding band to increase the ADA threshold. This would allow for a more gradual reduction in per-pupil funding until, as ADA approaches the new threshold, schools shift to the regular LCFF base rates. By increasing the ADA threshold, however, this approach would have higher state costs than the Governor's proposal. Alternatively, the Legislature could modify rates in a way that minimizes the fiscal cliff and has similar costs to the Governor's proposal. Implementing this option would require larger increases to the lower funding bands (for schools with lower ADA) and smaller increases to the highest funding bands, with minimal increases for those closest to the threshold.

Staff Comments

The Budget Year LCFF and COLA funding levels and relevant proposals will be considered as part of the Final Budget guarantee estimate. Major new spending proposals in the January Budget are held open, for consideration in light of May Revision revenues for the Assembly Budget committee. However, adjustments to LCFF and major categorical programs for annual COLA have been longstanding priorities for any increases in ongoing Proposition 98 revenue, before the consideration of other new one-time or ongoing expenditures.

As covered in prior hearings, ongoing growth in Proposition 98 funding, when paired with continued declining enrollment, provides an opportunity to revisit key elements of the Local Control Funding Formula.

One area of consistent advocacy is the LCFF Base rate and annual COLA calculation. In a few strong Budget growth years, the state has been able to provide a COLA larger than the federal price index, however, the statutory COLA usually remains below the ~4% minimum that LEAs report necessary to keep up regular inflationary costs and natural salary schedule changes. Exploring the sufficiency of the annual COLA, or a one-time enhanced COLA, for purposes of LCFF is a crucial discussion for this subcommittee.

The Necessary Small Schools proposal seeks to address rising base costs for our smallest schools, in addition to the normal LCFF COLA. While this proposal has merit, the cliff effect the proposal creates between the small schools adjustment and LCFF base costs raises questions about the sufficiency of “nearly small” schools’ LCFF base funding.

Suggested Questions:

1. What COLA alternatives would the LAO recommend for LCFF?
2. What are the potential long-term consequences of not having a statutory COLA for large categorical programs like Career Technical Education Initiative and Expanded Learning Opportunity Program?
3. Should any increase in necessary small school funding be accompanied by an incentive for tiny school districts to merge, to support fiscal solvency?
4. How could the Necessary Small Schools proposal and policy be tweaked to address the cliff effect, identified by the LAO?
5. What size of LCFF base increase for all LEAs would address this cliff, at what cost over existing COLA?

Staff Recommendation: Hold Open. Direct staff to work with LAO on alternative LCFF COLA calculations.

Issue 2: Special Education Equalization

This panel will hear the Governor’s Budget Proposal to equalize Special Education funding.

Panel

- Alaina Powell, DOF
- Sara Cortez, LAO

Background

California Provides Most Special Education Funding Based on Overall Student Attendance. The state allocates most special education funding through a base rate formula commonly called AB 602 (after its enacting legislation). This funding is allocated to Special Education Local Plan Areas (SELPAs). SELPAs are typically a regional consortium of local education agencies (LEAs)—school districts, charter schools, and county offices of education (COEs)—that coordinate special education funding and services, with large districts often serving as their own SELPA. The way funds are allocated within a SELPA is locally determined by the SELPA’s governing board, consisting of representatives from its member LEAs. The formula distributes funding to SELPAs based on two components: (1) total SELPA student attendance in Transitional Kindergarten through grade 12 and (2) a per-student base rate. With regard to attendance, AB 602 funding is provided to SELPAs using the highest attendance of the most recent three years (the current year or previous two years).

Regarding the per-student rate, most SELPAs receive funding using the same base rate—\$917.53 per student in 2025-26. (For historical reasons, one SELPA has a higher base rate.) This rate reflects significant base augmentations provided in recent years, largely due to concerns over schools’ growing special education costs.

The 2026-27 rate with only a 2.41 percent COLA, in lieu of the Governor’s Budget proposal, would be \$939.64

State Has Two Extraordinary Cost Pools to Address Certain High-Cost Services. The state provides ongoing Proposition 98 to run two extraordinary cost pools to reimburse SELPAs for high-cost student services and placements. One extraordinary cost pool reimburses small SELPAs (those with fewer than 15,000 students) for high-cost mental health services. Typically, funding requests from the extraordinary cost pool for small SELPAs do not fully exhaust available funding. Provisional language in the annual budget typically authorizes any remaining funding to be made available to the second extraordinary cost pool, which provides reimbursement for high-cost student placements in nonpublic schools exclusively serving students with disabilities. Requests for this latter pool consistently exceed available funding, in which case SELPAs receive a prorated portion of their request.

Governor's 2026-27 Budget

\$509 Million for Special Education. The Governor's budget provides \$509 million for a proposal to increase the special education base rate to \$999 per student. For most SELPAs, this would be a 6.3 percent increase beyond the statutory COLA. With this augmentation, all SELPAs would receive the same rate, equalizing per-pupil funding across the state.

LAO Comments

Special Education Increase Would Help Address District Cost Pressures. School districts cover special education costs through a combination of federal categorical, state categorical, and local unrestricted funding (largely LCFF). Over the past two decades, special education costs have increased faster than federal and state categorical funding, requiring districts to rely more on local funds. Based on our analysis of historical spending data, we estimate the share of special education costs covered by local funds has increased from roughly 50 percent to roughly 60 percent over the past decade. Providing additional base special education funding would help address these cost increases and free up local funding for other purposes. In addition, the proposal would achieve a long-term state goal of equalizing special education base rates. The state used special education increases from 2020-21 through 2022-23 to address historical inequities in base rates. Currently, all SELPAs but one receive the same per-student base rate. Under the Governor's proposal, all SELPAs would receive the same rate.

Budget Overestimates the Cost of Special Education Proposal. The Governor's budget likely overestimates the higher costs associated with funding higher special education base rates. Based on the statewide student attendance estimates in the Governor's budget, we estimate that increasing base rates to \$999 per student would cost \$325 million—\$184 million less than the administration's estimate.

Staff Comments

Challenges with judging the sufficiency of special education funding, particularly in light of declining enrollment but growing Special Education identification rates, remains.

According to the LAO, the January Budget amount could support a higher rate: Adding \$509 m on top of 2026-27 COLA (as the administration budgeted), would bring the rate to \$1032.62 for all LEAs.

Suggested Questions:

1. Is the Administration's committed to the \$509 million adjustment to Special Education rate increases in the January Budget? Specifically: would DOF be open to adjusting ALL

SELPA rates, equally, after equalization, if additional ongoing funds exist inside the \$509 million?

2. With declining enrollment, and yet growing rates of students identified with Special Education needs, is there an estimate to fund at least 50% of total statewide, local costs through state and federal Special Education funding categoricals?
3. Does the LAO have recommendations on addressing LEAs within SELPAs with disproportionate rates of identified students?
4. Are the high cost pools sufficiently funded?

Staff Recommendation: Hold Open.

Issue 3: Learning Recovery Block Grant

This panel will review the January Budget proposal to restore \$757 million to the Learning Recovery Block Grant.

Panel

- George Harris, DOF
- Kenneth Kappahn, LAO

Background**Learning Recovery Emergency Block Grant**

The 2022-23 Budget Act included \$7.9 billion for a state grant to assist TK-12 schools in supporting academic learning recovery and the social and emotional well-being of students and staff, in response to dramatic achievement gaps widening during the COVID-19 epidemic. LEAs may use Learning Recovery Emergency Block Grant funds through the 2027-28 school year, for a variety of academic and social-emotional activities, including increasing instructional learning time, providing tutoring and other academic services, offering additional instruction to students not on track to graduate, and addressing other barriers to learning.

Local educational agency (LEA) allocations are calculated based on each LEA's reported average daily attendance for kindergarten and grades 1 through 12, inclusive, multiplied by the LEA's 2021–22 LCFF unduplicated pupil percentage, as of the 2021–22 Second Principal Apportionment.

The Learning Recovery Emergency Block Grant (LREBG) funds can be expended for any of the following evidence-based purposes:

- 1) **Instructional learning time** for the 2022–23 through 2027–28 school years by increasing the number of instructional days or minutes provided during the school year, providing summer school or intersessional instructional programs, or taking any other action that increases or stabilizes the amount of instructional time or services provided to pupils, or decreases or stabilizes staff-to-pupil ratios, based on pupil learning needs.
- 2) **Accelerating** progress to close learning gaps through the implementation, expansion, or **enhancement of learning supports**, such as:
 - Tutoring or other one-on-one or small group learning supports provided by certificated or classified staff.
 - Learning recovery programs and materials designed to accelerate pupil academic proficiency or English language proficiency, or both.

- Providing early intervention and literacy programs for pupils in preschool to grade 3, inclusive, including, but not limited to, school library access.
 - Supporting expanded learning opportunity program services pursuant to EC Section 46120.
 - Providing instruction and services consistent with the California Community Schools Partnership Act (Chapter 6 [commencing with Section 8900] of Part 6) regardless of grantee status.
- 3) **Integrating pupil supports** to address other barriers to learning, and staff supports and training, such as the provision of health, counseling, or mental health services; access to school meal programs; before and after school programs or programs to address pupil trauma and social-emotional learning; or referrals for support for family or pupil needs.
- 4) **Access to instruction for credit-deficient** pupils to complete graduation or grade promotion requirements and to increase or improve pupils' college eligibility.
- 5) **Additional academic services** for pupils, such as diagnostic, progress monitoring, and benchmark assessments of pupil learning.

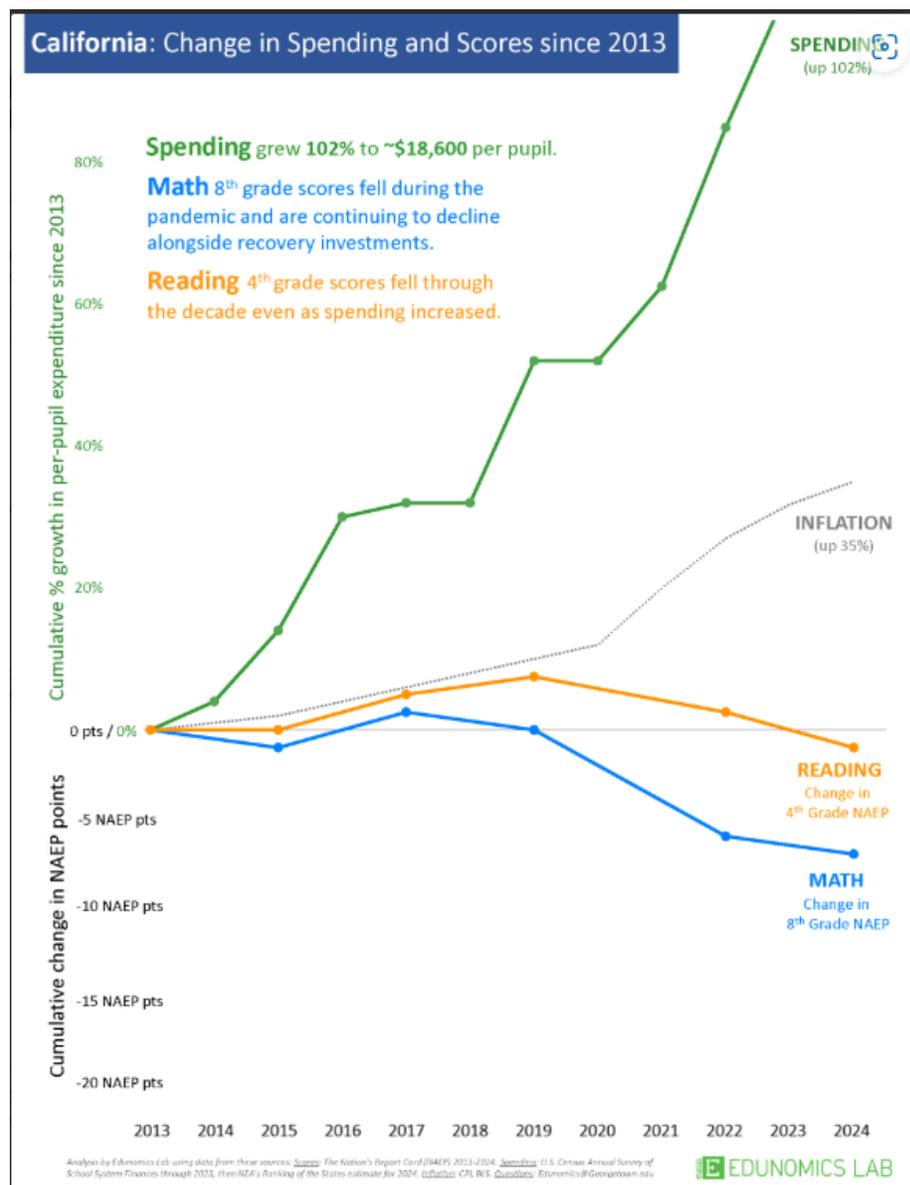
In light of a one-time budget shortfall, the June 2023 budget implemented a \$1.1 billion (14.3 percent) reduction to the LREBG. This reduction lowered the funding for the program to \$6.8 billion. The budget also contained intent language to restore on a schedule of \$379 million annually in 2025-26, 2026-27, and 2027-28.

New Requirements Added in 2024-25 Budget Act Following a Legal Settlement. In late 2020, the families of several students living in Oakland and Los Angeles filed a lawsuit alleging the state had failed to ensure that schools provided adequate instruction during the pandemic (Cayla J. et al. v. State of California). In early 2024, the state agencies involved in the suit announced a settlement agreement with the plaintiffs. The agreement called for the Governor to propose new requirements for the LREBG. The requirements consisted of actions districts would need to take before spending the rest of their grants, including (1) conducting a needs assessment to identify the students in greatest need of support, (2) documenting the rationale for their proposed use of the grant, (3) explaining how research or other evidence supported their plans, (4) soliciting and responding to community feedback through their local planning process, and (5) tracking relevant measures of student engagement and academic performance. The agreement recognized that districts had already spent some of their LREBG funds but presumed at least \$2 billion in unspent funds would be subject to the new requirements. The 2024-25 Budget Act enacted these settlement changes to the Block Grant.

Student Achievement Gaps Update

As covered in the 2025 Assembly Education Committee informational hearing on ongoing Learning Recovery challenges, the large achievement gap increases due to COVID school closures remain for almost all LEAs in California, across reading and math scores, and chronic absenteeism.

California learning recovery struggles are on par with national trends. According to the Education Recovery Scorecard, which was highlighted in the hearing at length:



“1. As of Spring 2024, the average U.S. student remained nearly half a grade level behind pre-pandemic achievement in both math and reading. **Students are now further behind in reading than they were in 2022.**

2. Although **no state improved in both math and reading** on the NAEP relative to 2019...6 percent (of total students) are in districts which have recovered in both subjects.

3. District-level data reveal pockets of success and continued struggle in most states. For instance, the NAEP reported that only one state, Alabama, had average achievement above 2019 levels in 4th grade math...

4. The **highest income decile districts are nearly 4 times more likely to have recovered** in both math and reading than the lowest income decile districts: 14.1 percent vs. 3.9 percent. Still, we see examples of higher poverty districts recovering in reading and math—such as Compton, California...

5. **Socioeconomic and racial/ethnic disparities in math achievement have grown** since the start of the pandemic both within districts and across districts. The disparity in math scores between students in affluent and low-income districts has grown by 11 percent since the start of the pandemic, and the disparity in scores between students in predominantly non-minority and predominantly minority districts has grown by 15 percent. Moreover, the average within-district racial/ethnic disparities in math scores have grown by 7-12 percent since 2019. The disparities in reading scores have grown as well, but by less.

6. The federal relief dollars aided the recovery in higher poverty districts (where achievement in both math and reading was boosted by 10 percent of a grade equivalent.) Each dollar of federal relief improved student achievement by about as much as a general revenue increase. But it mattered how districts spent the money. In California, which maintained more detailed spending data, we find that **student achievement grew more in districts that spent more on academic interventions**, such as tutoring or summer school.

7. A **widespread rise in absenteeism is slowing the recovery, especially in high poverty districts**. Most districts—high- and low-income—have seen a rise in student absenteeism, with larger increases in low-income districts. Our data show that districts with high post-pandemic absenteeism did experience slower recovery, but the full impact of the rise in absenteeism is not yet clear.” (Dewey, Fahle, Kane, Reardon, & Staiger, 2025)¹

The complete report, including California-specific findings, can be found here <https://educationrecoverycorecard.org/states/california/>

¹ Bold added for emphasis

The Governor's 2026-27 Budget

The Governor's Budget proposes to align with statutory intent and restore the \$757 Million for the Learning Recovery Emergency Block Grant (LREBG). The June 2025 budget provided the first installment of \$379 million. The Governor's budget proposes \$757 million—two more installments—to restore the grant a year earlier than planned. Like the original grant, districts would receive funding based mainly on their counts of English learners and low-income students. The proposal also maintains the deadline requiring districts to spend their funds by June 30, 2028, and all spending requirements, in place.

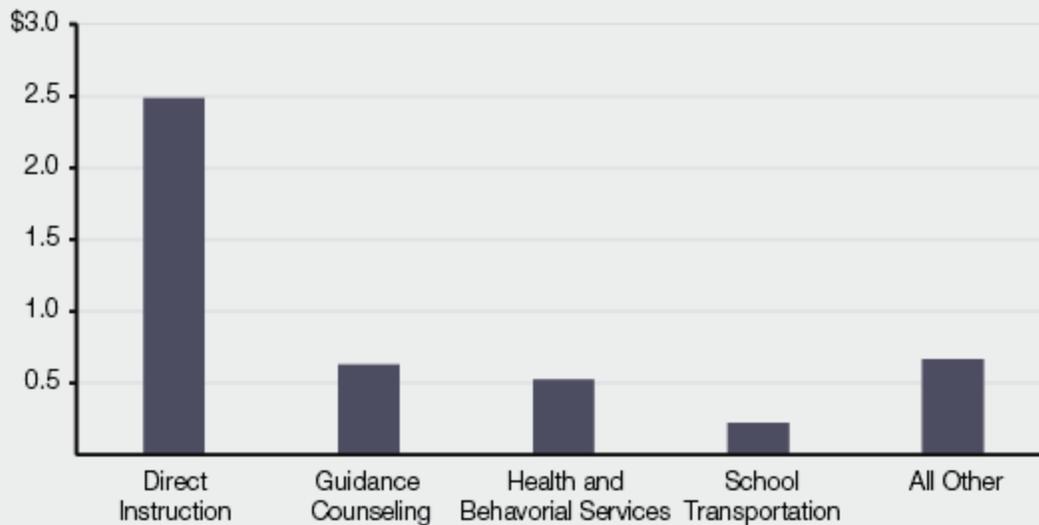
LAO Comments

Districts Have Spent Most of Their LREBG Funds on Instruction. Based on our analysis of district fiscal data, we estimate districts spent about \$4.5 billion in LREBG funds through 2024-25 (covering the first three years of the program). More than half of this spending involved direct instruction, such as increased instructional time, additional teachers and aides, and tutoring (Figure 9). Most of the other spending supported student services, such as counseling and transportation. Although the state does not collect detailed information on district use of the grant, the emphasis on direct instruction and student services suggests that districts are prioritizing initiatives that could address learning loss. The spending reported through 2024-25 represents approximately two-thirds of the initial grant amount. The remainder—approximately \$2.3 billion—remained unspent at the end of 2024-25. Districts, however, are required to adopt multiyear plans for how they will spend these funds by 2027-28.

Figure 9

Districts Have Spent Most of Their LREBG Funds on Direct Instruction

Estimated Expenditures Through 2024-25 (in Billions)^a



Examples:

- Direct instruction: increased instructional time, additional teachers and aides, tutoring.
- Guidance counseling: personal development, career advice, student recordkeeping.
- Health and behavioral services: diagnostic testing, mental health services, attendance improvement.
- School transportation: home-to-school transportation, bus passes.
- All other: administration, curriculum development, teacher training.

^a Amounts reflect unaudited actual expenditures for 2022-23 and 2023-24 and preliminary expenditure data for 2024-25. Expenditures for each category have been increased by about 12 percent to account for charter schools that file financial reports in an alternative format and school districts that did not submit preliminary data for 2024-25.

LREBG = Learning Recovery Emergency Block Grant.



Restoring the LREBG Ahead of Schedule Has Merit. The original impetus for the grant—helping students recover from learning loss—remains a significant concern. State test scores show that student achievement has been improving but remains below pre-pandemic levels. Adopting the Governor’s proposal to accelerate this restoration would give districts greater certainty about their final funding levels. This approach seems especially important if the state maintains the original spending deadline. The LREBG requires districts to undertake a lengthy planning process, including (1) conducting a needs assessment, (2) gathering community input, (3) developing measures of student engagement and performance, and (4) explaining how research or other evidence supports their plans. If the state does not make the final payment until 2027-28, districts would not have time for a thoughtful planning process. Accelerating the restoration also eliminates the need for another payment in 2027-28.

Adopt Funding for LREBG but Delay Expenditure Deadline. The additional funding for the LREBG could help districts mitigate learning loss. We recommend adopting the proposal but delaying the expenditure deadline for at least a year (through 2028-29). Delaying the deadline would allow districts to complete the detailed planning process and spend their funding more evenly over the next several years. Accounting for the additional LREBG funding and the discretionary block grant, all districts would receive an allotment of flexible funding for each student and targeted funding to support learning recovery based on their EL/LI students. This funding structure parallels the LCFF.

Staff Comments

Supporting students and schools with the academic and social-emotional losses during COVID remains a crisis across the state. Test scores and other measures of academic performance show that student achievement remains notably below pre-pandemic levels. Districts also report students coming to school with much higher levels of socio-emotional challenges than they experienced before the pandemic. Interim spending data suggest that districts have spent their LREBG funds on various initiatives that could address learning loss, including additional instructional time, additional staff, accelerated instruction (such as tutoring), and teacher training, however very few LEAs have fully recovered in math, reading, and attendance to pre-COVID achievement gaps.

In addition to ongoing learning recovery needs, generous federal COVID recovery funds have expired, creating a huge cliff effect for these initiatives, that the state LREBG was intended to mitigate. Additional LREBG funding could help districts sustain the most promising and evidence-based federally funded activities for another few years.

The Governor's Budget proposal is consistent with Legislative intent, and Budget agreements from the LREBG reductions, to eventually restore the grant to its original funding level.

As the research indicates, if COVID-related achievement gaps are not addressed, this generation of students face a lifetime of lower financial and other life expectancies. Recovery from the social and academic impacts of COVID remain an emergency in most schools.

The inequitable nature of learning recovery, with high-income LEAs recovering four times faster than low-income LEAs, raises a question about available one-time funds in the Budget, and whether an LCFF-approach would be supportive of learning acceleration, even if those funds are discretionary in nature.

Suggested Question:

- In light of the Learning Recovery hearing, while all LEAs received federal and state Learning Recovery funds, some LEA-practices have proven much more effective than the state average. How can the System of Support continue to promote effective learning recovery strategies for LREBG funding use?

Staff Recommendation: Hold Open.

Issue 4: Student Support Discretionary Block Grant

This issue will cover the Governor’s Budget proposal to use \$2.8 billion in Proposition 98 funding for an additional Student Support and Professional Development Discretionary Block Grant.

Panel

- Alex Shoap, DOF
- Kenneth Kappahn, LAO

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 2026-27 Budget

\$2.8 Billion for Discretionary Block Grant. The Governor proposes \$2.8 billion for the Student Support and Professional Development Discretionary Block Grant. This funding would supplement the \$1.8 billion provided for a similar grant in the June 2025 budget. Districts would receive funding based on their average daily attendance in 2025-26—\$506 per student under current DOF attendance estimates. The grant would not have specific spending requirements, but trailer legislation suggests several potential uses, including teacher professional development, PreK-3 teacher and administrator professional development on “developmentally appropriate TK,” teacher recruitment and retention, career pathways, dual enrollment programs, and “addressing rising costs.” Districts could spend their funds at any time before June 30, 2030.

The proposal also changes the year of appropriation for the original 2025-26 Budget Act's \$1.8 billion Discretionary Block Grant, to the 2024-25 fiscal year.

LAO Comments

Districts Could Use Discretionary Grants for Various Costs and Programs. We spoke with local leaders and explored how districts might use one-time discretionary funding. Some districts likely would use the funding to help implement the state's new curriculum for teaching literacy and mathematics, including costs for teacher training and instructional materials. Additionally, many districts would likely extend programs they previously funded with one-time federal grants. (The federal government provided more than \$20 billion in one-time grants during the pandemic, but these funds expired in September 2024.) These programs include coaching for teachers, counseling and tutoring for students, attendance improvement initiatives, and Multi-Tiered Systems of Support (a framework for providing supports to students that vary based on their academic and behavioral needs). A few districts likely would address infrastructure-related priorities, such as refreshing technology and upgrading facilities for transitional kindergarten. We also think many districts would use some of their grants to offset revenue reductions from declining enrollment. While this approach could delay necessary budget adjustments, it might be reasonable if it allows districts to implement expenditure reductions gradually. Districts might also consider using their grants to cover fiscal liabilities, including unfunded retiree health care obligations and one-time and ongoing liability insurance costs.

Staff Comments

Like the \$5.6 billion in unappropriated funds for the Current Year, this \$2.8 billion discretionary block grant raises the question of priorities for large amounts of one-time funding availability. The decision points before the Legislature, are 1) the value of targeted versus fully discretionary funding for schools, 2) the length of time LEAs need to consider fund availability, in light of

declining enrollment trends and market growth concerns, and 3) whether an ADA-based funding distribution moves one-time funds further away from LCFF intent.

The Educator Effectiveness and Arts & Music block grants are expiring in the Budget Year, 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 yet another, 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 concerns about multi-year budget stability? Should the state consider a longer, five or even seven-year time horizon?

Staff Recommendation: Hold Open.

Issue 5: School Facilities

This panel will hear the Governor’s Budget funding for school facilities, as funded pursuant to AB 247 (Muratsuchi, 2024).

Panel

- Ethan Schroeder, DOF
- Sara Cortez, LAO
- Rebecca Kirk, Office of Public School Construction (OPSC)

Background

School Construction Funding

The current school bond funding was authorized by the Kindergarten through Grade 12 Schools and Local Community College Public Education Facilities Modernization, Repair, and Safety Bond Act of 2024 (Proposition 2) as passed by the Legislature under AB 247 (Muratsuchi, 2024), which was approved by a majority of California’s voters on November 5, 2024.

In part, Proposition 2 provides \$8.5 billion in proceeds from the sale of bonds for the construction and modernization of Transitional Kindergarten (TK) through Grade 12 school facilities. Proposition 2 specifies that the \$8.5 billion is allocated to the School Facility Program (SFP) as follows:

- New Construction - \$3.3 billion, with up to 10 percent (\$330 million) available to small school districts
- Modernization - \$4.0 billion, with up to 10 percent (\$400 million) available to small school districts, and up to \$115 million available to address the remediation of lead in water
- Charter School Facilities Program (CSFP) - \$600 million
- Career Technical Education Facilities Program (CTEFP) - \$600 million

With the passage of Proposition 2, \$600 million has been authorized for the Charter School Facilities Program (CSFP). Charter Schools and/or school districts filing on behalf of a charter can apply for this service by applying for a preliminary apportionment (reservation of bond authority) for new construction projects and/or rehabilitation of district-owned existing facilities that are at least 15 years old. To qualify for funding, the applicant and charter school must be deemed financially sound by the California School Finance Authority.

According to OPSC, as of January 2026, the agency had received \$1.6 billion in LEA applications for New Construction awards, and \$2.4 billion in LEA applications for Modernization. As of February 2025, OPSC reported a point-in-time Beyond Authority List for \$1.5 billion in

Modernization funding. OPSC can provide an update on applications versus bond availability at this hearing.

Governor’s 2026-27 Budget

The January Budget allocates \$1.5 billion in Proposition 2 school facility bond funds for 2026-27 construction projects.

Staff Comments

Suggested Questions:

1. For OPSC: When will the total of voter-approved Proposition 2 funds for Modernization be awarded, based on current demand/application projections?
2. Is OPSC tracking surplus property re-use trends across California, in light of declining enrollment and increasing school site closures?

Staff Recommendation: Hold Open.

Issue 6: 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, including forecasts for LEAs at risk for state receivership.

Panel

- Michael Fine, FCMAT
- Megan Reilly, 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.

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.

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 ten districts with emergency loans. Plumas Unified School District is the most recent LEA to receive emergency apportionments in 2025. The following additional 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 LEAs to address declining enrollment trends.

Staff Comments

FCMAT is not forecasting a school district for imminent state receivership at this time, however, will keep the Subcommittee informed as the fiscal year progresses.

Staff Recommendation: Information Only.

This agenda and other publications are available on the Assembly Budget Committee's website at: [Sub 3 Hearing Agendas | California State Assembly](#). You may contact the Committee at (916) 319-2099. This agenda was prepared by Erin Gabel.