

# AGENDA

## ASSEMBLY BUDGET SUBCOMMITTEE NO. 2

### ON EDUCATION FINANCE

ASSEMBLYMEMBER KEVIN McCARTY, CHAIR

TUESDAY, JANUARY 26, 2021

9:00 A.M. – STATE CAPITOL, ROOM 4202

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*Due to the regional stay-at-home order and guidance on physical distancing, seating for this hearing will be very limited for press and for the public. All are encouraged to watch the hearing from its live stream on the Assembly's website at <https://www.assembly.ca.gov/todaysevents>.*

*We encourage the public to provide written testimony before the hearing. Please send your written testimony to: [BudgetSub2@asm.ca.gov](mailto:BudgetSub2@asm.ca.gov). Please note that any written testimony submitted to the committee is considered public comment and may be read into the record or reprinted.*

*A moderated telephone line will be available to assist with public participation. The public may provide comment by calling the following toll-free number: (877) 692-8957 / Access Code: 131 54 202.*

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## INFORMATIONAL HEARING

### OVERVIEW OF THE GOVERNOR'S 2021-22 BUDGET PROPOSITION 98 & K-12 EDUCATION

#### I. OPENING REMARKS

- Assemblymember Kevin McCarty, Chair
- Committee Members

#### II. BUDGET PERSPECTIVES

- Tony Thurmond, State Superintendent of Public Instruction

**III. GOVERNOR’S 2021-22 BUDGET: PROPOSITION 98**

Issue One:

- Aaron Heredia, Department of Finance
- Kenneth Kappahn, Legislative Analyst's Office
- Elly Garner, California Department of Education

Issue Two:

- Melissa Ng, Department of Finance
- Kenneth Kappahn, Legislative Analyst's Office
- Elly Garner, California Department of Education

Issue Three:

- Aaron Heredia, Department of Finance
- Liz Mai, Department of Finance
- Michael Alferes, Legislative Analyst’s Office
- Amy Li, Legislative Analyst’s Office
- Elly Garner, California Department of Education

**IV. STATE OF SCHOOL FISCAL HEALTH**

- Michael Fine, Fiscal Crisis Management Assistance Team (FCMAT)

**V. PUBLIC COMMENT**

## ITEMS TO BE HEARD

### 6100 CALIFORNIA DEPARTMENT OF EDUCATION

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#### OVERVIEW

In the Governor's 2021-22 January Budget, the economic and social impacts of the COVID-19 pandemic on California's students, public education system, and state revenues are better understood than at the final 2020-21 Budget Act in August 2020. This Budget proposes significant one-time and on-going Proposition 98, general fund, and federal fund increases in TK-12 public education. This hearing will provide an overview of the largest one-time and fiscal dynamics and proposals in the Governor's K-12 and Proposition 98 items.

#### ISSUE 1: PROPOSITION 98 OVERVIEW & RELEVANT PROPOSALS

The January Budget proposes significant one-time and on-going Proposition 98 and general fund increases in TK-12 public education. This issue will cover the Proposition 98 guarantee and relevant proposals impacting the total amount of Proposition 98 funding LEAs receive in the Budget Year, and oversight concerns for the TK-12 budget in the current year.

#### PANEL

The following individuals will participate virtually in the discussion of this issue:

- Aaron Heredia, Department of Finance
- Kenneth Kappahn, Legislative Analyst's Office
- Elly Garner, California Department of Education

#### BACKGROUND

##### **2020-21 Budget Act Oversight**

Despite an anticipated drop in the Proposition 98 guarantee, the Final Budget for 2020-21 and the two education trailer bills, SB 98 and SB 820, appropriated approximately \$100 billion for public school funding, holding all LEAs harmless from cuts, and providing cost savings and one-time COVID relief funds for all schools. Additionally, significant policy was included in the Budget deal to support short-term distance learning and the safe re-opening of school campuses for small student cohorts, hybrid instructional models (a combination of in-person and distance learning), and comprehensive in-person instruction.

Major 2020-21 items relevant to the larger Proposition 98 discussion in the Budget Year included:

- The Proposition 98 minimum guarantee set at \$70.9 Billion, in the 2020-21 Budget Year.
- \$1.85 billion in deferred Proposition 98 funding in the 2019-20 budget year to the 2020-21 budget year, and a total of \$11 billion in funding from the 2020-21 budget year to the 2021-22 budget year. Created authority for up to \$300 million in deferral hardship funds for LEAs.
- New “Supplemental Payment” schedule for the difference between total Prop 98 funding level and Test Two in the Guarantee for 2020-21, beginning in 2021-22.
- \$5.53 billion in one-time discretionary federal funds and General Fund for one-time COVID closure impacts on schools and children:
  - \$1.5B to all LEAs, based on Special Education enrollment for Learning Loss
  - \$2.9B to all LEAs, based on LCFF Supplemental and Concentration grant formulas for Learning Loss
  - \$980 million to all LEAs, based on the total LCFF formula
  - \$45m for existing Community School models
  - \$6m for professional development via the UC Subject Matter projects.
- \$1.4B in one-time federal ESSER funds directly to LEAs based on mandatory Title I allocation.
- \$2.3 billion (\$1.2 billion in Current Year, \$1.1 billion in Budget Year) one-time funding relief for Local Education Agency (LEA) statutory contributions to the STRS and PERS retirement systems.
- \$192.2m in one-time federal and state funds for LEA school meal reimbursements during summer and COVID closures, through August 2020.
- On-going increase of \$645 million Proposition 98 funding for special education services and supports: \$545m to base rate increases, \$100m for low-incidence pool.
- Extended the 2019-20 (average daily attendance) ADA Hold Harmless to the 2020-21 School Year, contingent on student participation reporting and local Continuity of Learning and Attendance plan elements.
- For the 2020-21 school year, allowed all LEAs to apply for either planned increases or actual planned growth to classroom-based student attendance, whichever is less, in lieu

of the 2019-20 average daily attendance hold-harmless guarantee adopted in the Budget Act of 2020-21 for all LEAs, under certain conditions.

- Maintained instructional day requirements but allowed flexibility for instructional minutes in 2020-21 School Year, including a minimum day standard for instructional minutes.
- Defined Distance Learning and created 2020-21 Continuity of Learning and Attendance plans, as part of annual Local Control Accountability Plan process.
- Prohibited lay-offs for specified certificated and classified employees in 2020-21.
- Adopted short-term fiscal flexibilities, including: increased LEA inter-fund borrowing allowances, sale of surplus LEA property for one-time spending purposes, exclusion of on-behalf pension payments from the Routine Restricted Maintenance Account requirements, and extended audit timelines.

**2020-21 Deferrals:** According to the DOF, 46 LEAs have requested deferral exemptions (13 school districts and 33 charter schools), for a total of \$174.6 million. According to FCMAT, it appears that LEAs have been able to plan for current year deferrals, and if current-year action to rescind deferrals is intended, action would be necessary prior to mid-February to avoid penalties. The January Budget does not propose a current year action to rescind deferrals.

**ADA Hold Harmless & Enrollment:** The hold harmless policy enacted in the 2020-21 Budget Act protected traditional LEAs from enrollment drops in both 2020-21 and 2021-22 due to the pre-existing hold harmless policy for LCFF, and all LEAs have protection from enrollment drops between 2019-20 and 2020-21.

One of the factors used to calculate the Proposition 98 minimum guarantee level is growth in ADA. In a Test 2 or Test 3 year, the guarantee is adjusted for changes in ADA. However, there is a hold harmless provision for reductions in ADA. Under that provision, negative growth is only reflected if the preceding two years also show declines. Under current projections, which reflect birth rates and migration, TK-12 ADA is expected to decline annually in coming years and the hold harmless will no longer apply for the guarantee calculation, contributing to a possible dampening effect on Proposition 98 guarantee growth in future years. DOF and LAO do project Test 1 calculations for the guarantee, however, for the foreseeable future, which means the overall guarantee would not be impacted by ADA declines.

According to CDE's preliminary October 2020 enrollment census data, enrollment dropped dramatically by over 150,000 students statewide for the 2020-21 school year, compared to 2019's pre-pandemic enrollment. This is a huge change from the more gradual and consistent decline of approximately 20,000 enrollments per year due to birth rate declines. Final CDE data

reports on state-wide enrollment and grade and demographic-specific implications should be available no later than March 2021.

DOF and CDE have reported that actual attendance reporting in the 2020-21 academic year, and ADA are not being collected in 2020-21. The January Budget does not propose any changes to the ADA hold harmless policies.

**ADA Growth Funding:** The Final Budget Act provided a process for LEAs experiencing pre-pandemic planned and realized growth in enrollment to adjust their hold harmless for this growth. According to the CDE, 347 LEAs have applied for this ADA growth adjustment for up to \$189 million in additional ADA funding, including 3 County Offices of Education, 64 School Districts, and 280 Charter Schools.

**Distance Learning Fiscal Accountability:** In addition to the ADA hold harmless, LEA ADA was impacted in the Budget Act for non-compliance with pandemic-related policy in the Budget Act to create the state's Distance Learning standards. These Distance Learning standards included minimum instructional minutes and days, daily live interaction, digital/technology provision, grade-level content, academic and other supports for pupils not performing at grade level, special education services as required, meals, weekly instructional engagement records, communication with parents regarding academic progress, absence reporting, and tiered re-engagement for chronic absentees. The 2020-21 Audit Guide will provide accountability for some portions of these new requirements, but has not yet been finalized.

### **Governor's 2021-22 Budget**

Provides a total Proposition 98 General Fund funding level of \$79.5 billion in 2019-20, \$ 82.8 billion in 2020-21, and estimates \$85.8 billion for the guarantee in 2021-22, all at Test 1.

- Provides a total of \$88.1 billion for Proposition 98 funding for 2021-22, \$2.3 billion above the Test 1 guarantee level.
- Projects Proposition 98 ongoing per-pupil spending to be \$13,015 in 2021-22, an increase of \$644 (5.2 percent) over the revised 2020-21 Budget.
- Provides \$747 million current year and \$2.2 billion 2021-22 Budget year increases to the Public School System Stabilization Account.
- Repays \$9.2 billion in TK-12 Deferrals in 2021-22.
- Proposes a new \$3.7 billion deferral from 2021-22 to the 2022-23 budget year.
- Proposes that the \$2.3 billion one-time non-Proposition 98 general fund contribution to the Prop 98 guarantee (cited above) be in lieu of the Proposition 98 supplemental payment adopted in 2020-21 Budget Act.

In addition to the Proposition 98 Guarantee proposals, there are additional major TK-12 education proposals relevant to overall public education fiscal health:

- Assumes in-person instruction will be the default for the 2021-22 school year, and does not include new or extended proposals for Distance Learning fiscal or programmatic policy. All existing Distance Learning education code will expire July 1, 2021.
- Proposes \$6.6 billion in one-time funding for early budget action, to reopening public schools and address learning loss for students during the pandemic.
- Provides total of \$64.5 billion in Proposition 98 funding for the Local Control Funding Formula (LCFF), reflecting both a 1.5 percent cost-of-living adjustment in 2021-22, and an additional 2.34 percent adjustment for COLA not provided in 2020-21.
- Provides a 1.5% COLA to all statutorily-required early education and TK-12 programs, including nutrition, and state preschool. Does not provide a COLA to After School and Safety Education programs.
- Maintains the budget year \$1.1 billion state investment in school pension payments.
- Recognizes approximately \$6.7 billion in new federal ESSER funds, and \$400 million in new federal Governor Emergency Education Relief funds for early and 2021-22 Budget action.
- Authorizes \$1.5 billion in Proposition 51 K-12 school bond fund allocations.
- Provides \$300 million in on-going Proposition 98 funding for preschool special education services and school readiness supports.

#### **LAO Comments:**

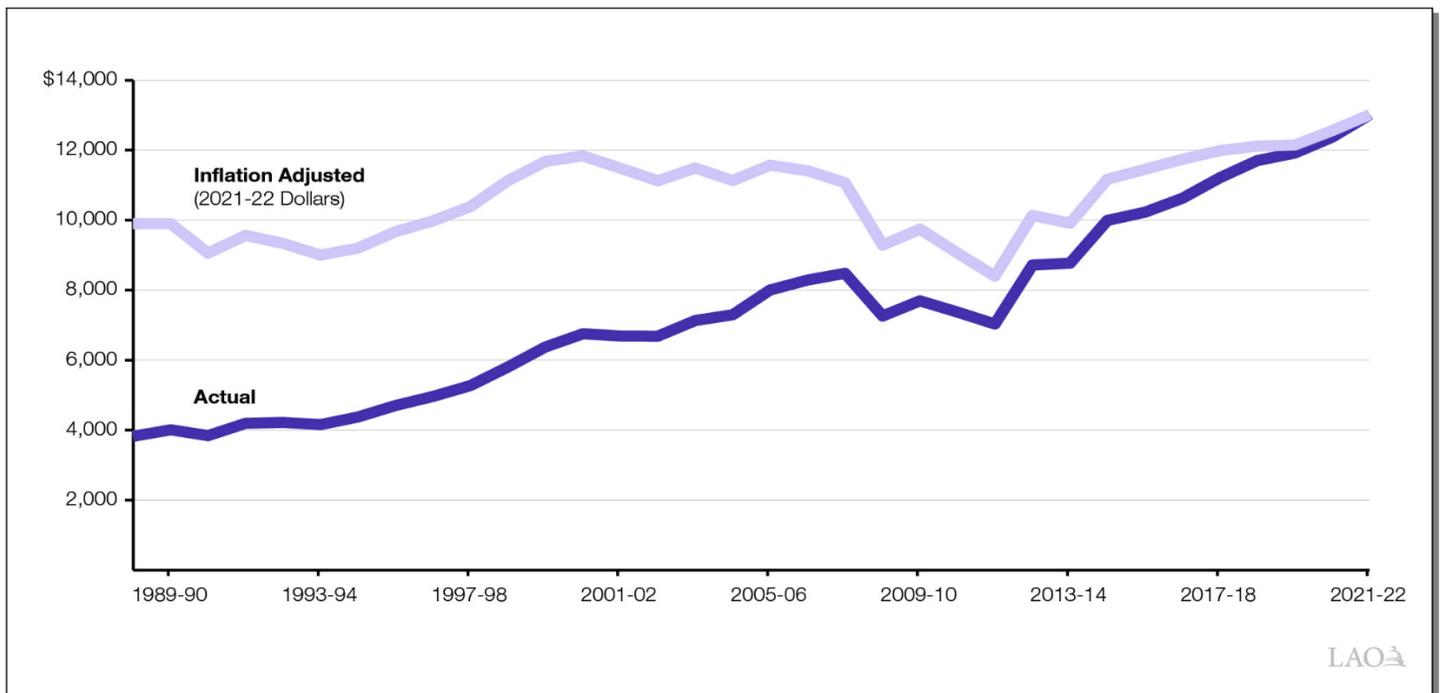
**Budget Reflects a Reasonable Mix of One-Time and Ongoing Spending.** Of the new spending specifically attributable to 2021-22, the budget allocates \$2.6 billion for ongoing commitments and \$2.9 billion for one-time activities. This one-time spending, combined with a \$2.2 billion one-time deposit into the Proposition 98 Reserve (discussed in the nearby box), creates a budget cushion of \$5.1 billion. This cushion helps protect ongoing programs from volatility in the minimum guarantee. Specifically, to the extent the guarantee drops or grows more slowly in the future, the expiration of these one-time allocations allows the state to accommodate the lower guarantee without relying on program cuts or payment deferrals. Having a large one-time cushion seems especially important in 2021-22 given the continued and significant economic uncertainty due to the pandemic. Moreover, \$2.3 billion of the total Proposition 98 funding allocated to schools in 2021-22 is supported with a one-time supplemental payment (the Governor's budget assumes no such additional payments are provided after 2021-22).

**Allocate Greater Share of Funding to Paying Down Deferrals and Addressing Pension Cost Increases.** School districts report a number of costs associated with responding to the COVID-19 pandemic and preparing to resume in-person instruction. Examples include purchasing devices and internet connectivity for distance learning, cleaning and reconfiguring facilities, training teachers, and testing for the virus. However, the 2020-21 budget allocated

more than \$7 billion in state and federal funds to address COVID-19-related costs and mitigate learning loss. Recent federal legislation— approved shortly before the release of the Governor’s budget—is likely to provide a similar amount of one-time funding in 2021-22. Although some additional state funding directed toward academic support and reopening schools might be warranted, we think the budget misses an opportunity to make more progress on two other issues. Specifically, we recommend the Legislature allocate a larger share of the one-time funds for (1) paying down deferrals or (2) mitigating future cost increases related to pensions. Paying down deferrals would better position districts and the state to weather economic volatility by reducing pressure on future Proposition 98 budgets. Paying down future pension costs could help smooth out a notable increase in costs currently projected for 2022-23. Although taking these actions might mean somewhat less one-time funding is available for new programs in 2021-22, we think they would increase the likelihood that the programs districts do develop in the coming year can be sustained over time.

### K-12 Proposition 98 Funding Per Student Over Time

*From Passage of Proposition 98 (1988) Through 2021-22 Under the Governor's Budget*



Source: Legislative Analyst’s Office

### Supplemental Payment

The 2020-21 Budget Act created the requirement for supplemental payments to repay the Proposition 98 guarantee for the difference between Test 1 and Test 2 guarantee calculations, anticipating a steep drop in the minimum guarantee that would affect school and community

college funding for several years. The supplemental payments were intended to accelerate the recovery from this drop, with payments growing from \$2.3 billion in 2021-22 to more than \$6 billion by 2024-25, for a total of \$12 billion.

Citing a strong rebound in the minimum guarantee, the Administration proposes to eliminate these payments after 2021-22—effectively making the \$2.3 billion included in the 2021-22 budget a one-time payment. \$2.3 billion is DOF's estimate for the 1.5% payment required by statute for 2021-22.

The LAO estimates that the multi-year growth in the guarantee, plus this \$2.3 billion in-lieu payment adds over \$19 billion in new Proposition 98 spending over the three-year period, and that an elimination of out-year supplemental payments could mitigate approximately \$6 billion in forecasted structural deficits.

### **PSSSA & Reserve Cap**

Public School System Stabilization Account (PSSSA). The state's Proposition 98 Rainy Day Fund was established with the passage of Proposition 2 in 2014. Proposition 2 requires a deposit in a Proposition 98 Rainy Day Fund under certain circumstances. These required conditions are that maintenance factor accumulated prior to 2014-15 is paid off, Test 1 is in effect, the Proposition 98 guarantee is not suspended, and no maintenance factor is created. A deposit to the PSSSA was first triggered by these requirements in the 2019-20 budget when \$376 million was deposited, which was then drawn out of the reserve by new estimates in the 2020-21 Budget Act.

The Administration estimates the state is required to make a \$747 million deposit in 2020-21 and a \$2.2 billion deposit in 2021-22. The total balance of the reserve would be \$3 billion, which equates to about 3.5 percent of all funding that would be allocated to schools and community colleges in 2021-22.

Additionally, this level of reserves triggers a statutory requirement that LEAs may not have local reserves in excess of 10% of their total annual expenditures, in the year after the state reserve balance is equal to or greater than 3% of the total TK-12 share of the annual Proposition 98 guarantee level. This cap on local reserves would be in effect in the 2022-23 fiscal year for all LEAs above 25,000 ADA, with an exception for basic aid school districts. The 21-22 guarantee calculation would set this trigger level at \$2.3 billion.

Should this local reserves cap go into effect in 2022-23, the LAO estimates that approximately 130 LEAs statewide would be impacted, based on a state review in 2018-19 of LEA reserve levels: at the end of the 2018-19 fiscal year, districts held a total of \$12.8 billion in unrestricted reserves. The data indicate that \$6.9 billion of this amount was earmarked for specific uses and \$5.9 billion was not earmarked.

### **K-12 Deferrals**

The June 2020 budget plan deferred approximately \$11 billion in payments to schools in anticipation of a significant decline in available school funding. The January Budget proposes to pay off \$9.2 billion of this amount, with districts receiving the associated cash in 2021-22, but also proposes a new June 2022 to July 2022 deferral of \$3.7b for K-12 schools.

### **K-12 Pension Contributions**

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

### **Local Property Tax Adjustments**

The January Budget provides an increase of \$54.1 million ongoing Proposition 98 General Fund for school districts and county offices of education in 2020-21 as a result of decreased offsetting property tax revenues, and a decrease of \$1.2 billion ongoing Proposition 98 General Fund for school districts and county offices of education in 2021-22 as a result of increased offsetting property taxes.

### **STAFF COMMENTS & QUESTIONS**

**Steep Enrollment Loss Impacts:** The ADA hold harmless and growth policies in the 2020-21 Budget Act appear crucial for the stabilization of the public education system during this pandemic period. It is unknown at this time how the 155,000 student enrollment decline this year will manifest in future years.

While the overall funding levels for Proposition 98 will remain in Test 1 for the foreseeable future, and thus remain a source of stable growth regardless of student enrollment, the precipitous drop in enrollment during this pandemic may do short- and long-term injury to individual LEAs when they exit the hold harmless period. Additionally, CDE's preliminary data suggests that Unduplicated Pupils, who generate LCFF additional funding, are declining in enrollment at a higher rate than their peers, statewide. The impact of this demographic shift to individual LEAs and their LCFF targets remains unknown at this time.

**Distance Learning in 2021-22:** The Administration is not proposing to extend the statutory authority and flexibilities for Distance Learning in the January Budget, but has expressed a commitment to working with the Legislature on the need to adopt frameworks for out-of-classroom instruction beyond the Distance Learning sunset.

**Deferrals vs One-time Priorities:** The Administration is proposing to extend a \$3.7 billion deferral due to the huge demand in one-time education expenditures during the pandemic and recovery period. Unlike the Final 2020-21 Budget Act, the new deferrals do not have an automatic repayment trigger if increased federal relief funds are appropriated.

**The 2022-23 Fiscal Cliff:** There are multiple pressures LEAs will face in the 2022-23 fiscal year, if major policy and fiscal changes are not addressed this year, including the LCFF hold-harmless, enrollment drops, state pension contributions, the end of pandemic federal aid, and a new pressure for the state to prioritize deferral repayment over new funding.

**Questions:**

Can CDE expedite their data report on the total decline in enrollment for 20-21, compared to 19-20, statewide, by key declining grades, and any key declining LEAs?

What happens if all Distance Learning standards expire at the end of the 20-21 FY and individual quarantine or campus closures remain a reality in the 2021-22 school year?

Why is the Administration extending \$3.7B in deferrals with so much one-time state and federal funding available?

What is the Administration's rationale and impacts for changing the 20-21 Budget Act Supplemental payment calculations?

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**Staff Recommendation: The current year and Budget Year Proposition 98 funding levels and relevant proposals will be considered as part of both Early Action and Final Budget comprehensive packages, including the interactions between one-time pandemic response needs and ongoing cost pressures for public schools.**

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**ISSUE 2: FEDERAL RELIEF FUNDING FOR TK-12 EDUCATION**

The 2020-21 Budget Act allocated \$6.4 billion in one-time federal Coronavirus Relieve Fund (CRF) and Coronavirus Aid, Relief, and Economic Security (CARES) Act funding for TK-12 education, intended to support public school reopening, address student pandemic needs, and short-term distance learning costs. An additional \$6.92 billion in federal aid for California schools has now been appropriated, and the Biden Administration is proposing additional federal aid during his first 100 days in office. This hearing will discuss the totality of federal aid as a major consideration in California's 2020-21 and 2021-22 school funding and pandemic recovery.

**PANEL**

The following individuals will participate virtually in the discussion of this issue:

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

## BACKGROUND

The 2020-21 Budget Act allocated \$6.4 billion in one-time federal Coronavirus Relieve Fund (CRF) and Coronavirus Aid, Relief, and Economic Security (CARES) Act funding for TK-12 education, intended to support public school reopening, address student pandemic needs, and short-term distance learning costs.

The most significant part of the 2020-21 federal funding was the discretionary CRF fund used to support TK-12 education, and while the original funding use deadline of December 2020 was extended, most LEAs have reported already exhausting these funds. According to the most recent CRF expenditure reports from the CDE, approximately 11% of LEA expenditures through December 2020 were on costs attributable to open school campuses (testing, PPE), and the majority of funds (59%) were spent on expenditures directly related to distance learning, including:

- Technological improvements such as increasing broadband capacity.
- Software purchases that enable distance learning.
- Hardware purchases for students and/or teachers such as laptops and tablets.
- Instructional materials necessary for distance learning.
- Staff training /professional development necessary to provide quality distance learning.

<b>CRF Expenditure by Category</b>	<b>Dollars</b>	<b>Percentage</b>
Administrative Expenses	\$ 40,249,986	1%
Personnel & Services Diverted to a Different Use	\$ 438,082,436	12%
COVID-19 Testing and Contact Tracing	\$ 65,705,347	2%
Facilitating Distance Learning	\$ 2,104,987,887	59%
Food Programs	\$ 163,260,448	5%
Medical Expenses	\$ 2,172,532	0%
PPE	\$ 204,900,892	6%
Improve Telework Employees	\$ 97,359,689	3%

Public Health Expenses	\$	201,237,443	6%
Other	\$	225,925,165	6%
Total	\$	<b>3,543,881,825</b>	100%

Chart Source: California Department of Education

The use of other CARES and one-time funds in the 2020-21 Budget Act have not yet been reported.

The second round of federal aid, the Coronavirus Response and Relief Supplemental Appropriations Act, contains significantly more funding specific to schools:

First and Second Round Federal Funding for ECE and K-12 COVID-19 Response			
<i>In Millions</i>			
<b>State-Level Flexible Funding</b>			
Program	California Allocation (Round 1)	California Estimate (Round 2)	Total
Child Care Development Block Grant (CCDBG)	\$350	\$1,001	\$1,351
Elementary and Secondary School Emergency Relief Fund (ESSER)	159	676	\$835
Governor's Emergency Education Relief Fund (GEER)	355	157	\$512
<b>Local Assistance</b>			
Program	California Allocation (Round 1)	California Estimate (Round 2)	Total
Grants to public schools (ESSER)	\$1,483	\$6,087	\$7,569
Grants to private schools (GEER)	N/A	188	188

Source: Legislative Analyst Office

In addition to the funding referenced in the table above, the new package provides other funds that can be made available to schools and child care providers:

- \$250 Million for Head Start. This funding will be distributed directly to Head Start agencies based on the number of children enrolled to prevent, prepare for and respond to the coronavirus.
- \$100 Million for Safe Schools and Citizenship Education. This funding is for the federal grant program Project SERV to help elementary, secondary, and post-secondary schools clean and disinfect affected schools, as well as assist in counseling and distance learning. CDE would apply for a Project SERV grant on behalf of LEAs.
- \$25 Million for Distance Learning and Telemedicine Programs. This funding augments an existing federal grant program to help improve distance learning and telemedicine in rural areas of the country.
- Provides Partial Reimbursement for School Food Authorities that Served Fewer Meals. If a participant in the child nutrition program received less reimbursement in April, May, June, and half of March 2020 than it did in the same month in 2019, it will receive 55 percent of the reimbursement not received in 2020.

The January Budget does not have specific proposals to direct the estimated \$6.92 billion in new federal aid that will be available for appropriation in the current year and Budget Year. Of these funds, \$6.087 billion will go directly to LEAs under federal law, by Title I formula. The ECE federal funds will be discussed in a separate hearing.

Additionally, the Biden Administration has proposed an additional federal relief package to support the safe reopening of schools during his first 100 days in office. The current proposal contains approximately \$13 billion for California schools, to support safe school reopening, distance learning, learning recovery, and to prevent reductions in ECE funding.

#### **LAO Comment:**

**Recent Federal Action Should Inform State Actions.** We recommend the Legislature: (1) determine how to best target state funds to those not benefiting from the federal assistance, and (2) strive to complement, rather than duplicate, the federal activities.

#### **STAFF COMMENTS**

According to CDE's most recent CRA and CARES Act funding reports, LEAs only leveraged approximately 11% of 2020-21 federal relief funds for reopening-related efforts. While early action issues on reopening and learning recovery proposals will not be handled in this hearing, the \$6.92 billion in new and potential \$13 billion in federal funding specifically to support school reopening, safety, and learning loss is an opportunity to leverage all funding sources for state and local priorities to help our students recover from the trauma of the COVID-19 pandemic.

**Questions:**

Are there any preliminary data on how schools are budgeting their CARES Act funding?

What is the timeline for receipt of the new federal aid, and deadline for expenditure?

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**Staff Recommendation: Existing and upcoming federal aid for safe school reopening and learning recovery should be considered as part of both Early Action and Budget Act total public education packages.**

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**ISSUE 3 ADDITIONAL K-12 SPENDING PROPOSALS**

The January Budget proposes \$2.396 billion in new on-going Proposition 98 spending for the 2021-22 Budget Year. This hearing will review the major on-going funding proposals for TK-12 schools.

**PANEL**

The following individuals will participate virtually in the discussion of this issue:

- Aaron Heredia, Department of Finance
- Liz Mai, Department of Finance
- Michael Alferes, Legislative Analyst's Office
- Amy Li, Legislative Analyst's Office
- Elly Garner, California Department of Education

**BACKGROUND**

The 2020-21 Budget Act included some on-going new funding for TK-12 public schools through an increase of \$645 million in Proposition 98 funding for special education services and supports: \$545m to base rate increases, \$100m for the state low-incidence pool.

Due to the assumed decline in the Prop 98 guarantee, the Local Control Funding Formula (LCFF) and statutory categorical programs did not receive a cost of living adjustment (COLA) for 2020-21.

The January Budget proposes \$2.396 billion in new on-going Proposition 98 spending for the 2021-22 Budget Year for LCFF COLA, categorical COLA, and special education.

## **K-12 Local Control Funding Formula & Cost of Living Adjustments**

The bulk of funding for school districts and county offices of education for general operations is provided through the Local Control Funding Formula (LCFF) and is distributed based on the numbers of students served and certain student characteristics. The state first fully funded the LCFF in 2018-19 and has annually adjusted the grant amounts by a cost-of-living adjustment (COLA). The proposed budget provides a COLA of 3.84 percent, at a cost of approximately \$2 billion when adjusted for declining ADA estimates, for the 2021-22 fiscal year. This would bring total LCFF funding to \$64.5 billion and fund all local educational agencies at their full LCFF target level.

The COLA calculation for the LCFF reflects both a 1.5 percent cost-of-living adjustment for 2021-22, and an additional 2.34 percent adjustment for COLA not provided in 2020-21.

The January Budget proposes a 1.5% COLA, at an on-going increase of \$85.7 million, to all statutorily-required early education and TK-12 programs, including Special Education, Child Nutrition, State Preschool, Youth in Foster Care, Mandates Block Grant, Adults in Correctional Facilities Program, American Indian Education Centers, and the American Indian Early Childhood Education Program. The state Afterschool Safety and Education program does not receive a COLA under the proposal.

County Offices of Education would receive an increase of \$10.2 million ongoing Proposition 98 General Fund to reflect a 1.5-percent COLA and ADA changes applicable to the LCFF.

## **Local Control Funding Accountability**

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

## **Special Education**

The January Budget proposes \$300 million in new on-going Proposition 98 funding for LEA preschool special education services and school readiness supports.

Although SELPAs are required to serve 3-5 year olds, they do not receive any additional funding under the state's AB 602 special education funding formula for these children, and federal funding for special education remains completely inadequate for the state's total special education population at \$1.4 billion annually. The total state appropriation for special education in the 2020-21 Budget Act is \$3.9 billion.

In the 2019-20 Budget Act, \$492.7 million was appropriated for the Special Education Early Intervention Preschool grant, provided to school districts based on the number of three through five-year olds with exceptional needs. These funds were unrestricted, and LEAs, school districts, county offices of education, and charter schools could use these to fund special education services that were previously paid for with their general operations funding (including services provided to 3-5 year olds), freeing up funds for other school district needs. The budget also included language to specify that the increase in early interventions be allocated in a one-time manner. The January Budget proposes to fund this Early Intervention grant at \$300 million annually.

#### STAFF COMMENTS

#### Questions:

Why shouldn't all TK-12 programs receive the same COLA as LCFF, in light of the rebound in the Proposition 98 guarantee?

How is the Administration responding to last year's veto of AB 1835 (Weber)?

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**Staff Recommendation: This issue will need to be revisited as part of the overall school funding priorities for the Budget Year and out-years, in context with one-time program and infrastructure investments to be covered in future hearings.**

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#### ISSUE 4: STATE OF SCHOOL FISCAL HEALTH

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**

The following individuals will participate virtually in the discussion of this issue:

- Michael Fine, FCMAT

**BACKGROUND**

AB 1200 (Chapter 1213, Statutes of 1991) created an early warning system to help local educational agencies (LEAs) avoid fiscal crisis, such as bankruptcy or the need for an emergency loan from the state. AB 1200 expanded the role of county offices of education (COEs) in monitoring school districts and requires that they intervene, under certain circumstances, to ensure districts can meet their financial obligations. The bill was largely in response to the bankruptcy of Richmond School District, and the fiscal troubles of a few other districts that were seeking emergency loans from the state.

The formal review and oversight process, often referred to as the "AB 1200 process" requires the county superintendent to approve the budget and monitor the financial status of each school district and JPA in its jurisdiction. COEs perform a similar function for charter schools and the CDE oversees the finances of COEs.

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

There are several defined "fiscal crises" that can prompt a county office of education to intervene in a district: a disapproved budget, a qualified or negative interim report or recent actions by a district that could lead to not meeting its financial obligations.

Fiscal Reports Current law requires districts to file two interim reports during a fiscal year on the status of the district's financial health. For the first interim report, districts self-certify their budgets to their COE by December 15 for the period ending October 31. COEs are then required to report the certification for all districts in their county to the Superintendent of Public Instruction and the State Controller within 75 days after the close of the reporting period (generally by March 1). For the second interim report, districts self-certify their budgets to their COE by March 17 for the period ending January 31. COEs are then required to submit their certification of these

results to the SPI and the State Controller within 75 days after the close of the reporting period (generally by June 1).

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

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

### **State of School Fiscal Health**

FCMAT will provide more details in this hearing, however they have already provided preliminary information, as of the first interim report:

- 50 school districts “qualified” by self-certification, 15 of which have three or more consecutive qualified certifications.
- 1 county office of education qualified: San Francisco COE.
- 3 “negative” certifications: Elk Grove USD (Sacramento); Belridge Elementary (Kern), Sacramento City USD (Sacramento).

The second interim reports are due March 15th.

### **Emergency Loans**

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

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

the district and are added to the amount of the state loan. Therefore, a state loan will be much larger than what the district would otherwise need to borrow locally if it had been able to solve its own fiscal crisis.

Since 1991, the state has provided nine districts with emergency loans. Inglewood Unified School District and Oakland Unified School District continue to received emergency apportionments under the 2021-22 January Budget. No new LEAs are recommended for state assistance at this time.

The 2020-21 Budget Act specified actions both Oakland USD and Inglewood USD must make toward fiscal solvency and independence from state oversight and emergency funding. FCMAT will provide an update on District progress.

**STAFF COMMENTS**

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**Staff Recommendation: Information Only.**

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