AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2
ON EDUCATION FINANCE

Assemblymember Kevin McCarty, Chair

TUESDAY, MARCH 12, 2019

9:00 AM - STATE CAPITOL, ROOM 447

ITEMS TO BE HEARD

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6100 DEPARTMENT OF EDUCATION

ISSUE 1: GOVERNOR'S 2019-20 BUDGET: LOCAL CONTROL FUNDING FORMULA

The Subcommittee will hear an overview of Governor's budget proposals related to the Local Control Funding Formula (LCFF).

PANELISTS:

- Aaron Heredia, Department of Finance
- Ryan Anderson, Legislative Analyst's Office
- Khieem Jackson, Department of Education

BACKGROUND

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

The purpose of the LCFF was to create a more simple and equitable formula that is intended to improve student outcomes by shifting decision making to the local level and redistributing resources to students that require additional services. The LCFF consists of a base grant for all students, supplemental funding for English learners, low-income and foster youth, and concentration funding for local educational agencies (LEAs) with high proportions of students that qualify for supplemental funding. However, because the state could not fully fund the LCFF when it was enacted, the state set target rates to be funded over several years. The Department of Finance originally estimated that the LCFF will be fully funded in 2020-21. However, the LCFF was fully funded by 2018-19.

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

- Base Grant. Under the LCFF, school districts and charter schools receive the majority of their funding through a base grant based on average daily attendance (ADA) and adjusted for four grade span needs. The formula includes a 10.4 percent increase in the base rate for grades K-3 in order to cover the costs associated with class size reduction in these grades. The student to teacher ratio established by the LCFF in grades K-3 is 24 to one, to be phased-in over eight years. The high school grade span adjustment increases the base grant for grades 9-12 by 2.6 percent, taking into account costs associated with career technical education (CTE) and other high school programs.

- Supplemental Grant. The LCFF provides a "supplemental grant" for English learners, low-income and foster youth students. Under the formula, these student groups generate an additional 20 percent of the student's base rate. Students can only qualify for one supplemental grant, meaning that if a student is both an English learner and low-income, they are only counted once. All foster youth are also considered low-income; therefore it is unnecessary to discuss them as a separate group.

- Concentration Grant. The LCFF also provides a "concentration grant" for districts whose English learner and low-income student population exceeds 55 percent. These districts will receive an additional 50 percent of the adjusted base grant for each English learner and low-income student above the 55 percent threshold.

- Add-Ons. Two former categorical programs are treated as "add-ons" to the LCFF. These include the Home-to-School Transportation (HTST) program and the Targeted Instructional Improvement Block Grant (TIIG). Districts that received categorical funding for these programs in 2012-13 will continue to receive the same amount of funding through this add-on. Districts that did not receive this categorical funding previously will not receive the add-on. Some districts receive an Economic Recovery Target (ERT) add-on, targeted at those districts that would have fared better under the prior funding formula.

- Cost of Living Adjustment. Each year the target base rate will be updated for cost of living adjustments (COLAs). Prior to districts reaching their target funding level, COLA was included in their growth funding. Now that the target funding level has been reached, districts and charter schools receive an automatic COLA as part of the continuous appropriation of the LCFF.

LCFF for County Offices of Education

County offices of education (COEs) have a two-part formula in recognition that COEs provide two different functions. First, COEs provide support and services for their member districts. Second, they operate alternative schools for students that are incarcerated, on probation, referred by a probation officer, or have been expelled.

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

LCFF Transparency
The 2018-19 budget included the following actions to improve LCFF transparency:

- Budget Summary for Parents. Required each LEA to provide a parent friendly budget summary that links budget expenditures to corresponding goals actions, and services in the school district's Local Control Accountability Plan (LCAP). Required the summary for parents to be included as part of the LCAP beginning July 1, 2019.

- California School Dashboard. Provided $300,000 in one-time Proposition 98 funding to San Joaquin County Office of Education to improve the interface for the California School Dashboard based on stakeholder input.

- Supplemental and Concentration Grant Amounts. Required the CDE to post online the amount of supplemental and concentration grant funding awarded to each LEA on an annual basis once LEAs are funded at their LCFF targets.

The August budget clean-up trailer bill (AB 1840) included additional changes related to LCFF transparency, including:

- Required the SBE to adopt a new template for the LCAP and Annual Update on or before January 31, 2020.
- Required the LCAP to include a summary table of planned expenditures for all actions for each goal included in the LCAP, broken out by fund source.
- Required a summary of the actions and planned expenditures to increase or improve services for English learners, low-income and foster youth students. Required the planned expenditures to be grouped by expenditures provided to students on a districtwide, countywide or charter-wide basis, expenditures targeted to one or more student subgroups, and expenditures targeted at specific school sites.
- Specified that LEAs can prioritize their goals, actions and related expenditures within the eight state priorities (potentially shortening the LCAP document significantly).
- Required the LCAP and Annual Update template adopted by SBE to use language that is understandable and accessible to parents and required school districts and county offices of education to post prominently on the homepage of their website their approved LCAP.

GOVERNOR'S BUDGET PROPOSALS

The 2019-20 Governor's budget proposes to provide an additional $2 billion in ongoing Proposition 98 funding for a 3.46 percent COLA for the LCFF. This would bring the total LCFF funding to $63 billion.

Since 2013-14, the state has provided a total augmentation of $20.7 billion for the LCFF. Under the Governor's proposed budget, this amount would increase to $22.8 billion. The table on the next page shows the LCFF augmentations provided since 2015-16.

District and Charter School LCFF
(Dollars in Millions)

	2015-16	2016-17	2017-18	2018-19[1/]	2019-2020[2/]	2020-21	2021-22
LCFF Funding	$5,994	$2,942	$1,362	$3,659	$2,027		
Remaining LCFF Gap Closed	52.56%	56.08%	42.97%	100.00%	N/A		
COLA	1.02%	0.00%	1.56%	3.70%	3.46%	2.86%	2.92%

1/ In 2018-19, the LCFF funding amount reflects the estimate needed to provide the 3.70 percent COLA and reach full implemenation of the formula. The 3.70 percent COLA reflects a 2.71 percent cost-of-living adjustment and an additional $670 million increase to LCFF base/supplemental/concentration grant funding.

2/ In 2019-20, there is no remaining LCFF Gap Need. The LCFF funding amount reflects growth based on a 3.46 percent cost-of-living adjustment and changes in average daily attendance.

Source: Department of Finance

The Governor's budget includes $187 million in Proposition 98 funding to support a 3.46 percent COLA for categorical programs outside the LCFF, including Special Education, Child Nutrition, State Preschool, Youth in Foster Care, the Mandates Block Grant, American Indian Education Centers and the American Indian Early Childhood Education Program. The Governor's budget also provides $9 million in Proposition 98 funding to support a 3.46 percent COLA and ADA changes for county offices of education.

In addition, the Governor has proposed to make changes to the automatic COLA for LCFF adopted in the 2018-19 budget. The intent of the proposal is to cap the amount of COLA provided for the LCFF if the Proposition 98 growth is not sufficient to cover the LCFF COLA. The proposal would provide a formula to automatically reduce the LCFF COLA to a lower growth rate aligned to the growth rate in the minimum guarantee. The Administration has not yet released the specific trailer bill language on this proposal.

LAO Recommendations

The LAO recommendations related to the Local Control Funding Formula include:

- Continue providing most K-12 funding through the Local Control Funding Formula (LCFF), which has eliminated many of the complexities and inequities associated with the state's previous school funding model.

- Reject the Governor's proposal to cap the LCFF COLA. Also, repeal the action taken last year to provide an automatic LCFF COLA. Rather than budget by layers of self-imposed formulas, make decisions about the LCFF COLA annually based upon all key budget factors and priorities at that time.

- Expect the 2019-20 COLA rate, as finalized in April, not to vary substantially from the rate estimated in January (3.46 percent). Even small swings, however, affect the overall Proposition 98 budget package. A 0.5 percentage point change in the COLA rate would change LCFF costs in 2019-20 by about $300 million.

The LAO makes the following recommendations related to funding for county offices of education:

- Adopt the Governor's proposal to provide a COLA to the funding formula for county offices of education (COEs). Providing the COLA would somewhat mitigate current inequities in COE funding.

- Repeal the COE minimum state aid policy, which is producing increasingly large inequities in COE funding and diverting millions annually from other K-12 priorities. Associated state savings would be in the low tens of millions each year initially, growing to low hundreds of millions over time.

- To minimize disruption, consider adopting a provision ensuring no COE receives less total funding than estimated under the *2018-19 Budget Act*. Through such a provision maintains funding inequities in the near term, it stops those inequities from growing.

STAFF COMMENTS:

The Governor's budget continues to prioritize LCFF funding and does not make significant changes to the formula.

The Assembly Budget Blueprint called for developing a long-term funding mechanism for schools and extending the Low Performing Student Block Grant. The Subcommittee may wish to consider the following LCFF related budget proposals:

Increase LCFF Base Rate Targets to the National Average in Per Pupil Spending. The proposal would increase the LCFF base rates in 2019-20 as follows:

- $11,799 for average daily attendance (ADA) in kindergarten and grades 1 to 3
- $11,975 for ADA in grades 4 to 6
- $12,332 for ADA in grades 7 and 8
- $14,289 for ADA in grades 9 to 12

By increasing the base rates, the amount a local educational agency (LEA) receives in supplemental and concentration grant funds would also increase per the formula. This budget proposal would increase the cost of the LCFF by 60%, which is equal to approximately $35 billion above the current funding level. The budget proposal is intended to ensure that districts are able to cover increased fixed costs and to bring California up to the national average in per pupil spending. This proposal would be funded over a number of years, depending on state revenues.

Additional support for low-performing students. The 2018 Budget Act included a more robust system of support for school districts in need of assistance (persistently low-performing student subgroups on the Dashboard). The budget included additional ongoing funding for county offices of education to provide additional services and support for these struggling districts. The 2018 Budget Act also included $300 million in one-time funding for the Low Performing Student Block Grant, which targeted additional funding for low-performing students that do not generate supplemental funding. The Governor's budget does not provide funding for the Low Performing Student Block Grant in 2019-20. The Subcommittee may wish to consider providing additional resources dedicated for low-performing students.

Suggested Questions:

- Does the DOF believe the LCFF base grant sufficiently covers the increased costs districts are facing, such as increased healthcare and pension costs?

- Would the Administration support increasing the LCFF targets to a higher aspirational goal?

- Is the LCFF working to close the achievement gap?

- How can the state better support our lowest performing students?

Staff Recommendation: Hold Open

ISSUE 2: PENSIONS

The Subcommittee will hear the Governor's proposal to provide $3 billion in non-Proposition 98 funding to CalSTRS to make payments on behalf of employers in order to provide fiscal relief for school and community college districts.

PANELISTS:

- Aaron Heredia, Department of Finance
- Kenneth Kapphahn, Legislative Analyst's Office
- David Lamoureux, California State Teachers' Retirement System

BACKGROUND

In 2014, CalSTRS estimated that its investment fund was more than $70 billion short of the amount needed to pay for benefits its members earned through that date. In order to address this unfunded liability, the state passed AB 1469 (Chapter 47, Statutes of 2014), which included a plan to pay this liability over 32 years through increased contributions from school districts, teachers and the state. Under the plan:

- School district contributions increased from 8.25 percent in 2013-14 to 19.1 percent in 2020-21.

- Contributions for most teachers increased from 8.15 percent in 2013-14 to 10.25 percent in 2016-17. (Teachers hired after January 1, 2013 experienced increases at a slightly slower pace given their pension benefits are somewhat lower.)

- State contributions increased from 5.2 percent in 2013-14 to 10.6 percent in 2016-17.

At the same time, CalPERS also had significant unfunded liability, resulting in the CalPERS board taking action in recent years to increase school district contribution rates (and other state agencies). These actions include increased contributions for school districts from 11.4 percent in 2013-14 to 23.5 percent by 2020-21.

The table on the next page outlines the increased pension contribution rates and costs for school and community college districts from 2013-14 to 2020-21. Although pension costs have increased significantly, school funding has also grown by approximately $22 billion from 2013-14 through 2018-19.

Districts' Pension Contribution Rates and Costs

(Dollars in Millions)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Contribution Rates								
CalSTRS	8.25%	8.88%	10.73%	12.58%	14.43%	16.28%	18.13%	19.10%
CalPERS	11.44	11.77	11.85	13.89	15.53	18.06	20.80	23.50
Contribution Amounts								
CalSTRS[a]								
School Districts	$2,086	$2,463	$3,120	$3,724	$4,443	$5,213	$6,037	$6,615
Community College Districts[b]	179	207	262	314	374	439	508	557
Totals[c]	**$2,265**	**$2,670**	**$3,382**	**$4,038**	**$4,817**	**$5,651**	**$6,545**	**$7,171**
CalPERS								
School Districts	$1,122	$1,104	$1,214	$1,509	$1,710	$2,090	$2,476	$2,875
Community College Districts[d]	202	205	221	275	312	381	452	524
Totals[e]	**$1,323**	**$1,309**	**$1,435**	**$1,784**	**$2,022**	**$2,471**	**$2,928**	**$3,399**
Total District Contributions								
School Districts	$3,208	$3,567	$4,334	$5,233	$6,153	$7,303	$8,513	$9,489
Community College Districts	$380	$412	$482	$589	$686	$820	$960	$1,081
Totals	**$3,588**	**$3,979**	**$4,817**	**$5,821**	**$6,839**	**$8,123**	**$9,473**	**$10,570**

[a] Statewide payroll through 2016-17 based on CalSTRS' creditable compensation reports. Thereafter, payroll grows at administration's assumed rate of 4 percent per year.

[b] Share of CalSTRS contributions from community colleges through 2016-17 based on split of payroll from CalSTRS' creditable compensation reports. Thereafter, we assume 2016-17 share is constant.

[c] Total CalSTRS contributions through 2015-16 based on tables in the annual *Governor's Budget*. Thereafter, totals are estimates based on administration's payroll growth assumption.

[d] Share of CalPERS contributions from community colleges based on information from CalPERS.

[e] Amounts through 2016-17 from CalPERS Comprehensive Annual Financial Report. Thereafter, amounts are CalPERS projections.

CalSTRS = California State Teachers' Retirement System. CalPERS = California Public Employees' Retirement System.

Source: Legislative Analyst's Office

GOVERNOR'S BUDGET PROPOSALS

The Governor's budget includes a $3 billion one-time non-Proposition 98 payment to CalSTRS to make payments on behalf of employers (school and community college districts). Specifically, the Governor's budget includes:

- District Rate Relief. The Governor's budget provides $700 million to pay down employer contributions rates in 2019-20 and 2020-21 ($350 million each year), in order to provide some relief for school districts and community colleges in their rising pension costs. Under current law, district rates are scheduled to grow to 18.1 percent of payroll in 2019-20 and 19.1 percent in 2020-21. Under the proposal, district rates would be 1 percentage point lower—growing instead to 17.1 percent of payroll in 2019-20 and 18.1 percent in 2020-21.

- Unfunded Liability Payment. The Governor's budget also includes a $2.3 billion payment to reduce districts' share of the CalSTRS unfunded liability. This payment is expected to reduce the employer contribution rate by about 0.5 percent starting in 2021-22, over the next three decades.

Under current CalSTRS actuarial assumptions, the $3 billion payment is estimated to save employers $6.9 billion over the next three decades.

LAO Recommendations

The LAO recommends the Legislature consider setting aside funding for future rate relief. Rather than providing districts with budget relief over the next two years, the state could modify the Governor's proposal to provide rate relief during the next economic downturn. Under this alternative, the state would set aside funds for school district retirement costs, but not immediately adjust district contribution rates. Later, during a downturn, the Legislature could choose when to apply the additional funds and reduce district rates. Such an approach is beneficial because it mitigates the need for pension rate increases at a time when districts would have less funding and be facing even more difficult budget choices.

STAFF COMMENTS:

Pension costs are not the only rising costs that districts are facing. Districts have also seen increased special education, healthcare and other fixed costs. Providing some relief for districts, in recognition of their rising fixed costs, is a high priority for the Assembly. The Assembly Budget Blueprint called for helping schools acclimate to rising retirement costs.

The Governor's budget does not dedicate any funding for CalPERS retirement costs. Although the main purpose of the Governor's proposal is to free up funding for districts, the Subcommittee may wish to consider providing a similar payment to the CalPERS system on behalf of districts.

Suggested Questions:

- Did the Administration consider providing a similar payment to CalPERS? Why does the Governor's budget only include a payment for CalSTRS?

Staff Recommendation: Hold Open

ISSUE 3: ACCOUNTABILITY UPDATE: STATEWIDE SYSTEM OF SUPPORT

The Subcommittee will hear an update of the state's accountability and system of support, including the recent changes intended to better support struggling schools and districts.

PANEL

- Sara Cortez, Legislative Analyst's Office
- Dan Hanower, Department of Finance
- Khieem Jackson, Department of Education
- Tom Armelino, California Collaborative for Educational Excellence
- David Sapp, State Board of Education

BACKGROUND

In conjunction with the LCFF, the state also established a new system for school accountability and support. This system includes the Local Control Accountability Plan (LCAP) and Annual Update, the California School Dashboard, and the Statewide System of Support, which includes the California Collaborative for Educational Excellence (CCEE), county offices of education, the state board and the Department of Education. The intent of this new accountability system is to support continuous learning and improvement. Additionally, with the passage of the federal Every Student Succeeds Act (ESSA), the State Board of Education (SBE) has worked to create one accountability system that is aligned to both state and federal rules.

Local Control Accountability Plans

Under the new system, LEAs are required to complete a Local Control Accountability Plan (LCAP) every three years, which is to be updated annually. The LCAP must include locally-determined goals, actions, services, and expenditures of LCFF funds for each school year in support of the state educational priorities that are specified in statute, as well as any additional local priorities. In adopting the LCAP, LEAs must consult with parents, students, teachers, and other school employees. The eight state priorities that must be addressed in the LCAP, for all students and significant student subgroups in a school district and at each school include:

- *Williams* settlement issues (adequacy of credentialed teachers, instructional materials, and school facilities).
- Implementation of academic content standards.
- Parental involvement.
- Pupil achievement (measured in part by statewide assessments, Academic Performance Index, and progress of English-language learners toward English proficiency).
- Pupil engagement (measured by attendance, graduation, and dropout data).
- School climate (measured in part by suspension and expulsion rates).

- The extent to which students have access to a broad course of study.
- Pupil outcomes for non-state-assessed courses of study.

County offices of education must address the following two priorities, in addition:

- Coordination of services for foster youth.
- Coordination of education for expelled students.

School district LCAPs are subject to review and approval by COEs, while COE LCAPs are subject to review and approval by the State Superintendent of Public Instruction (SPI).

Additionally, the LCFF requires LEAs to increase or improve services for the high-need student groups that generate supplemental and concentration grants in proportion to the amount of additional funding those students generate under the formula. LEAs must demonstrate that they meet this requirement within the LCAP. The SBE is charged with adopting the LCAP template and regulations governing the requirement to increase or improve services for high-need student groups.

California School Dashboard

The SBE was also required to adopt evaluation rubrics as part of the new accountability system, in order to evaluate how LEAs are performing in each of the state priority areas and determine whether a LEA is in need of support or intervention. The SBE adopted the California School Dashboard (Dashboard), which was field tested in spring 2017, and its first operational release was fall 2017. The 2018 Dashboard, released in December, included a major redesign to be more parent-friendly and welcoming than the initial Dashboard design.

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

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

The Dashboard includes the following local performance indicators:

- Appropriately Assigned Teachers, Access to Curriculum-Aligned Instructional Materials, and Safe, Clean and Functional School Facilities
- Implementation of State Academic Standards
- Parent Engagement
- School Climate – Local Climate Surveys
- Coordination of Services for Expelled Students – County Offices of Education (COEs) Only
- Coordination of Services for Foster Youth – COEs Only

The Dashboard also includes performance standards for each indicator allowing LEAs and schools to identify both progress and needed improvements. There are five color-coded performance levels for these indicators (from highest to lowest: Blue, Green, Yellow, Orange, Red), which are based on a combination of current performance (Status) and whether there has been improvement compared to the prior year (Change).

Statewide System of Support

In conjunction with the changes to state accountability, the LCFF changed how California supports LEAs and identifies those that need extra assistance due to low performance. The dashboard is now used to identify LEAs in need of additional support and assistance under the system of support. County offices of education must provide additional assistance to school districts that have one or more student group in the lowest performance level for indicators in two or more LCFF state priority areas. LEAs may be subject to more intensive state intervention due to persistent low performance by multiple student groups. LCFF also created a new state agency, the California Collaborative for Educational Excellence (CCEE), to provide assistance and support to LEAs.

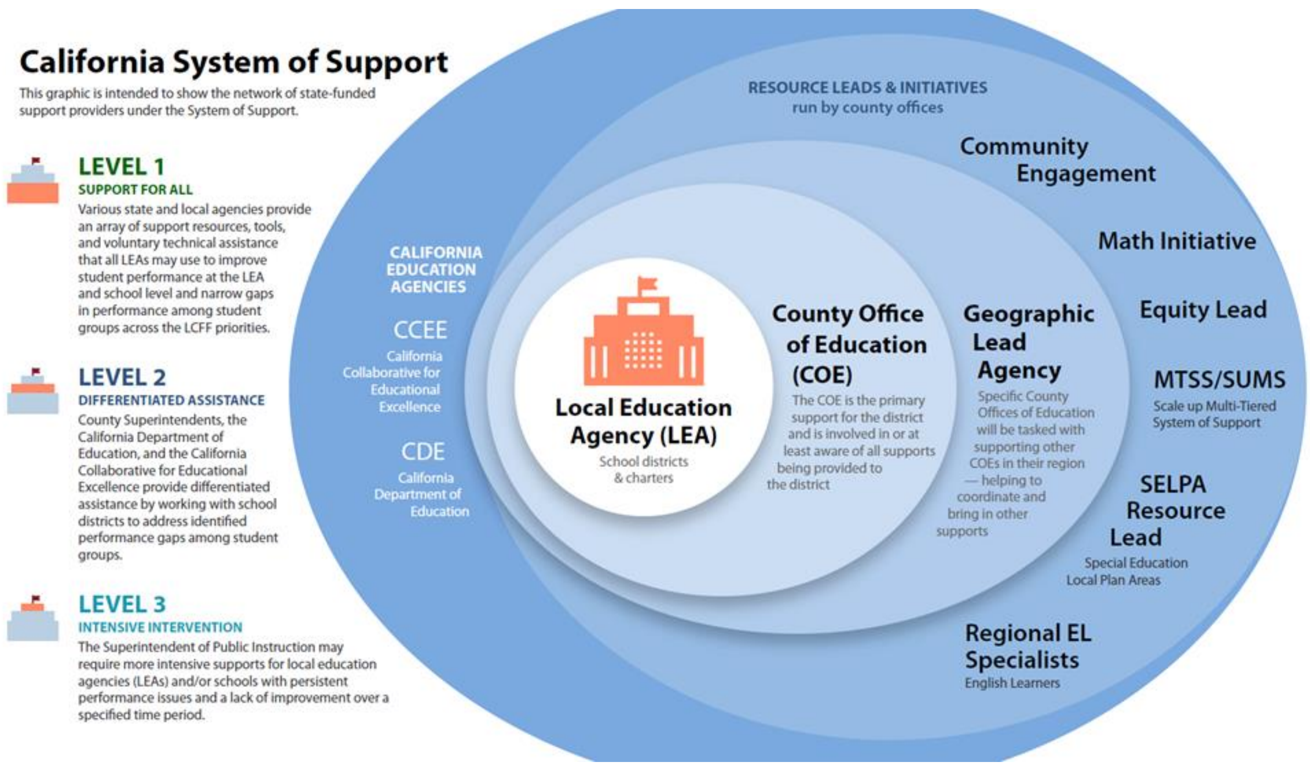
The system of support includes the following three levels of support for LEAs:

- ***Support for All*** (Level 1): All school districts and schools can access resources and assistance, such as trainings, conferences, voluntary technical assistance, and various tools. This support builds the overall capacity of school districts and schools to improve opportunities and outcomes for all students.
- ***Differentiated Assistance*** (Level 2): County offices of education are required to provide customized assistance to school districts that meet eligibility criteria based on student performance.
- ***Intensive Intervention*** (Level 3): The Superintendent of Public Instruction may intervene in school districts if there are persistent performance issues over multiple years.

Based on these criteria and the results from the 2018 Dashboard, a total of 374 LEAs are eligible to receive differentiated assistance (level 2) in 2018, based on state indicators. Of the 374 LEAs, 239 obtained differentiated assistance eligibility status for the first time in 2018, 135 maintained their eligibility status from 2017, and 93 eligible for differentiated assistance in 2017 are no longer eligible for assistance in 2018. The three student groups in greatest need of support are:

- Students with disabilities: 243 LEAs are eligible for differentiated assistance
- Homeless students: 145 LEAs are eligible for differentiated assistance
- Foster youth: 106 LEAs are eligible for differentiated assistance

The 2018-19 budget clarified roles and responsibilities within the System of Support and provided ongoing funding for county offices of education and the CCEE to support this work. These changes created a structure with specifically defined responsibilities that ensures a base-level of support is available statewide and relevant expertise can be leveraged regardless of where a school district is located.



2018-19 Budget
The 2018-9 budget included the following investments in the statewide system of support:

- Ongoing Funding for County Offices of Education. The 2018-19 budget included $53.8 million in ongoing Proposition 98 funding for County Offices of Education (COEs) to support districts that are in need of assistance.

- COE Geographic Leads. The 2018-19 budget provided $4 million in ongoing Proposition 98 funding to support between six and ten COEs as geographical lead agencies as part of the statewide system of support. The responsibilities of the lead COEs would include building the capacity of COEs in the region, providing technical assistance across the region and identifying existing resources and developing new resources to support LEAs.

- Special Education Leads. The 2018-19 budget provided $10 million in ongoing Proposition 98 funding to support between six and ten Special Education Local Plan Areas (SELPAs) as special education resource leads to work with COEs to improve outcomes for students with disabilities.

- Community Engagement Initiative. The 2018-19 budget included $13.3 million in one-time Proposition 98 funding to establish the Community Engagement Initiative. Specifically the initiative provides funding to the CCEE and a lead COE to solicit teams and establish three phases of professional learning networks focused on building the capacity of communities, school districts and county offices of education to engage more effectively in the LCAP process.

The lead agencies that have been selected for these initiatives are shown in the map on the next page.

Source: California Collaborative for Educational Excellence

California Collaborative for Educational Excellence

The CCEE was created as part of the new LCFF accountability framework, with its goal to advise and assist school districts charter schools, and county offices of education (COEs) to achieve identified outcomes in their LCAPs under the LCFF. Statue allows the CCEE to accept requests or referrals for technical assistance after consulting with the SPI. The CCEE may contract with individuals, LEAs, or organizations with expertise in the LCAP state priority areas and experience in improving the quality of teaching, improving school and district leadership, and addressing the needs of student populations (such as unduplicated students or students with exceptional needs.)

The CCEE was originally provided one-time funding for its ongoing operations and some one-time activities. Beginning in 2018-19, the state provided approximately $11 million in ongoing funding for the CCEE's operations. Thus far the CCEE has conducted statewide training for LEAs and education stakeholders on the LCAP and use of the school dashboard. The CCEE is also developing and curating materials and resources for an online trainer's library. In addition, the CCEE has facilitated the development of Professional Learning Networks (PLNs) made up of COEs, statewide organizations, and non-profits led by facilitators to support collaborative efforts to build capacity. The CCEE was also charged with conducting a pilot program designed to assist the CCEE in developing and designing their work in providing technical assistance and intervention to LEAs. The CCEE has undertaken pilot projects in 11 LEAs that reflect urban, suburban, and rural areas with different needs for technical assistance, including a COE and a charter school.

Every Student Succeeds Act
In December 2015, Congress passed the Every Student Succeeds Act (ESSA), which reauthorized the Elementary and Secondary Education Act of 1965 and required every state to develop a plan for using supplemental federal funding that states receive under ESSA for low-income students and English learners. The SBE was responsible for developing California's state plan as a condition of receiving approximately $2.5 billion in annual federal funding under ESSA. The state plan, which the U.S. Department of Education approved in July 2018, aligned California's approach to meet federal requirements to the greatest extent possible with state law.

ESSA requires states to identify schools for different types of support, including:

1. At least the lowest performing 5 percent of Title I schools (comprehensive support)
2. High schools with graduation rates below 67 percent (comprehensive support)
3. Schools with "consistently underperforming" student groups (targeted support)
4. Schools identified under number 3 where a student group on its own is performing at or below the level of schools identified under number 1 additional targeted support

The table below provides a breakdown of schools eligible for support under the federal requirements.

Identification Status	Number of Non-Charter Schools	Number of Charter Schools	Total
CSI (Based on Graduation Rate Only; Title I and non-Title I Schools)	206	94	300
CSI (Based on State Indicator Results; Title I Schools Only)	447	34	481
ATSI (Title I and non-Title I Schools)	818	41	859
General Assistance (Title I and non-Title I Schools)	7,230	1,040	8,270
Total	8,701	1,209	9,910

Source: State Board of Education

GOVERNOR'S BUDGET PROPOSALS

The Governor's 2019-20 budget includes the following funding related to accountability and support:

- Includes $130.1 million in federal funding for schools identified for comprehensive support and improvement under ESSA.
- Provides an additional $20.2 million for county offices of education to support districts identified for differentiated assistance, for a total of $75 million in 2019-20.
- Includes $11.8 million in ongoing Proposition 98 funding for the CCEE's activities (the Marin County Office of Education is the fiscal agent).
- Provides $350,000 in one-time Proposition 98 funding to contract with the San Joaquin County Office of Education to support the alignment and integration of online platforms supporting the California School Dashboard, LCAP Electronic Template System and the School Accountability Report Card. Specifies that every effort should be made to maximize the consistency of school-level data.

The Governor's budget also includes the following trailer bill language related to state accountability and support:

- Clarifies that charter schools must comply with the LCAP requirements, including holding a public hearing, and specifies that charter schools must address the state priorities 2-8 in their LCAP.
- Requires charter schools to prominently post their LCAP on their website and requires school districts to post the LCAP of any charter school that they authorize on the district website.
- Requires charter schools to provide translations of reports and notices if 15 percent or more of the students enrolled speak a primary language other than English, consistent with the requirements for traditional public schools.
- Requires the CCEE and the CDE, in consultation with the State Board to establish a formal process to coordinate the activities of the CDE, CCEE, geographic lead agencies, expert lead agencies, and special education lead agencies in order to provide effective support to LEAs.

STAFF COMMENTS/QUESTIONS

The Subcommittee should continue to monitor how the state's accountability and system of support is working to support struggling districts, schools and students.

Staff has no concerns with the Governor's proposed funding and accountability related trailer bill language.

Suggested Questions:

- Is the LCFF and new accountability system working to close the achievement gap, especially for low-income, English learners and foster youth students?

- Is the Dashboard being used by parents and community members as it was intended?

- How are the CCEE, CDE, and county offices of education working together to support struggling districts? What are the challenges of the existing structure?

Staff Recommendation: Hold Open.

ISSUE 4: FISCAL CRISIS MANAGEMENT ASSISTANCE TEAM ANNUAL UPDATE

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

PANELIST

- Michael Fine, Fiscal Crisis Management Assistance Team

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 (SPI)

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

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

- A positive certification is assigned when the district will meet its financial obligations for the current and two subsequent fiscal years.

- A qualified certification is assigned when the district may not meet its financial obligations for the current or two subsequent fiscal years.

- A negative certification is assigned when a district will be unable to meet its financial obligations for the remainder of the current year or for the subsequent fiscal year.

School Fiscal Health

At the first interim reporting period for 2018-19, 39 LEAs self-certified as qualified. However, three county offices of education were downgraded from positive to qualified, for a total of 42 LEAs with a qualified certification. Additionally, a total of four LEAs reported negative certification. The second interim reports are due March 15th.

The negative and qualified certifications for the first interim reporting period include the following districts:

Negative Certification

County	District
Butte	Feather Falls Union Elementary
Kern	Southern Kern Unified
Sacramento	Sacramento City Unified
San Diego	Sweetwater Union High

Qualified Certification	
County	**District or COE**
Alameda	Newark Unified
Alameda	Piedmont City Unified
Amador	Amador County Unified
Amador	Amador County Office of Education
Calaveras	Calaveras Unified
Contra Costa	Pittsburg Unified
Del Norte	Del Norte County Unified
El Dorado	Camino Union Elementary
El Dorado	Gold Trail Union
Humboldt	Klamath-Trinity Joint Unified
Kern	Lost Hills Union Elementary
Los Angeles	Burbank Unified
Los Angeles	Duarte Unified
Los Angeles	Glendale Unified
Los Angeles	Inglewood Unified
Los Angeles	Los Angeles Unified
Los Angeles	Monrovia Unified
Napa	Pope Valley Union Elementary
Riverside	Alvord Unified
Riverside	Coachella Valley Unified
Sacramento	Robla Elementary

Qualified Certification (cont.)	
San Bernardino	Upland Unified
San Bernardino	Yucaipa-Calimesa Joint Unified
San Diego	Bonsall Unified
San Diego	Mountain Empire Unified
San Diego	Oceanside Unified
San Diego	San Ysidro Elementary
San Luis Obispo	Paso Robles Joint Unified
San Mateo	Cabrillo Unified
San Mateo	San Carlos Elementary
Santa Clara	Alum Rock Union Elementary
Santa Clara	Berryessa Union Elementary
Santa Clara	Franklin-McKinley Elementary
Shasta	Cascade Union Elementary
Shasta	Gateway Unified
Solano	Vallejo City Unified
Sonoma	West Sonoma County Union High
Sonoma	Cotati-Rohnert Park Unified
Tulare	Terra Bella Union Elementary
Tuolumne	Curtis Creek Elementary

Source: Fiscal Crisis Management Assistance Team

Emergency Loans

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

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

Since 1991, the state has provided nine districts with emergency loans. Most recently, SB 533 (Wright), Chapter 325, Statutes of 2012, authorized $29 million (General Fund) for an emergency loan to the Inglewood Unified School District (IUSD).

2018-19 Budget

AB 1840, the 2018-19 education budget clean-up trailer bill, included the following changes related to school districts in financial distress:

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

- For the 2019-20 fiscal year, would include an appropriation for the Oakland Unified School District and Inglewood Unified School District, if the specified requirements are met, in the following amounts:

    i) For the 2019-20 fiscal year, up to 75% of the school district's projected operating deficit.
    ii) For the 2020-21 fiscal year, up to 50% of the school district's projected operating deficit.
    iii) For the 2021-22 fiscal year, up to 25% of the school district's projected operating deficit.

- Requires the Fiscal Crisis Management Assistance Team (FCMAT) to certify to the Legislature and Department of Finance that specified benchmarks have been met prior to allocating the state funding. Also requires FCMAT to report to the Legislature and the Department of Finance on the district's progress in meeting the benchmarks included in the prior year Budget Act by March 1st of each year, until March 1, 2021.

- Assigns authority to appoint a trustee or state administrator for school districts in fiscal distress to the school district's county superintendent, the State Superintendent of Public Instruction (SPI), and the president of the State Board of Education (SBE). Currently, the SPI has sole authority to appoint a trustee or administrator. Requires that the trustee or administrator be selected from a list vetted by or recommended by the Fiscal Crisis and Management Assistance Team (FCMAT).

- Requires the appointed administrators to serve under the supervision and direction of the county superintendent, in concurrence with the SPI and the president of the SBE, as specified. Currently, the SPI assumes the authority and rights of the governing board of the school district, and supervises and directs the administrator.

- Automatically qualifies school districts in state receivership for state intervention within the K-12 school accountability system, to allow school districts in receivership to access technical assistance for student performance and district management from the California Collaborative for Educational Excellence (CCEE). If the CCEE provides assistance to the school district, requires the CCEE to conduct a systemic review of the school district and coordinate additional assistance under the statewide system of support.

- Requires FCMAT to do an annual progress review of: i) the fiscal recovery of school districts in state receivership, and ii) the effectiveness of county office of education oversight.

FCMAT Report on Oakland USD and Inglewood USD

On March 1st, FCMAT submitted the required reports regarding the progress of Oakland USD and Inglewood USD in meeting their required benchmarks and estimated deficits.

The report for Inglewood USD revealed the district has made progress in meeting their benchmarks. They have taken action and made some cuts and are working on a comprehensive review to achieve fiscal sustainability, including a plan for school consolidations and closures. The FCMAT reports a total deficit of $3.2 million in 2019-20 and $5.7 million in 2020-21.

The report for Oakland USD found the district is still working toward meeting the benchmarks and had a projected deficit of $10.4 million in 2018-19 and $7.6 million in 2019-20. However, this report was released prior to the recent labor agreement and recent budget reductions made by the district. FCMAT will provide additional updates on the status of Oakland USD and Inglewood USD throughout the spring.

Governor's 2019-20 Budget

The Governor's budget includes $6.3 million in Proposition 98 funding for FCMAT's functions and oversight activities related to K-12 schools.

STAFF COMMENTS/QUESTIONS

Although negative and qualified certifications are down significantly from their peak numbers during the recession, many districts are struggling to meet their financial obligations. There are typically multiple factors that cause a district to be unable to meet its financial obligations and receive a negative or qualified certification. Some of these factors include: declining enrollment, an increase in charter schools and charter school enrollment, increased healthcare, STRS and PERS costs, and collective bargaining agreements that are beyond what the district can afford. The Legislature should continue to closely monitor the fiscal health of LEAs, especially with Proposition 98 growth beginning to slow.

Suggested Questions:

- Why are we seeing more and more districts in fiscal distress, despite the large increases in funding over the last several years?
- How have FCMAT's roles and responsibilities changed with the changes in the 2018-19 budget?
- Does FCMAT believe Oakland USD and Inglewood USD have met the benchmarks required for additional state funding?

Staff Recommendation: Information Only