The **bottom line**

A CASBO guide on school business and finance in California

CASBO

Founded in 1928, CASBO is the premier resource for professional development and business best practices for California's school business leaders. The association is dedicated to promoting excellence and professionalism in all aspects of school business, management and operations in school districts, county offices of education and among more than 24,000 individual school business officials statewide. Our work is based on the fundamental principle that public education is the foundation of a healthy democracy and thriving economy. California's nearly six million public school students are CASBO's essential priority; therefore, we work to ensure California public schools can educate our students in safe and healthy environments with appropriate educational resources so that they may become productive members of society.

CASBO is happy to serve as a resource to you. Please do not hesitate to contact our office at (916) 447-3783, or visit our website at www.casbo.org

CASBO

Dear Leaders,

California's school finance system fuels the learning and developmental opportunities that our state's nearly six million public school students receive. That system is shaped by the critical decisions made by elected state and local leaders.

The California Association of School Business Officials (CASBO) has developed this guide to provide essential information about school business and finance to inform this decision-making and leadership. The guide is divided into three sections that describe:

- How (and how well) California public schools are funded, including Proposition 98, the Local Control Funding Formula, recent federal Covid-19 relief funds, school facilities, and more;
- Current issues in school business and school finance; and
- Basics of local school district budgets.

These past several years have been among the most challenging for schools in California's history. A worldwide pandemic, pervasive economic and racial inequity, staffing shortages, and declining enrollments have stretched capacities and impacted nearly every aspect of our public education system. As you consider the school finance landscape, some important realities to keep in mind include:

- **California continues to serve the most diverse student population in the nation**, including approximately six out of 10 students who live in poverty, one out of five who are English learners, one out of 10 who have disabilities, and a rising number who lack housing.
- **An unexpected surge in funding levels has created unprecedented opportunities to strengthen education**, but significant challenges and pressures remain. These include rising costs; increasing imperatives to meet the physical, social, emotional and mental health needs of children at school; limited time for planning and integration of new, major initiatives; and long-term fiscal sustainability; and the likelihood of a recession in the next couple of years.
- **The state and nation are experiencing a severe shortage of qualified teachers for many subjects and classrooms**, as well as a shortage of other key staff and school leaders.

We encourage you to gain a deeper understanding about these and many other issues that shape school funding and business in California. While sometimes less visible, funding and business issues are crucial to supporting the success of our students every day in all of our classrooms.

Lastly, we'd like to acknowledge that while these past several years have been especially difficult, educators, school staff, leaders and school business officials across the state have continued to work tirelessly to confront the challenges and meet the needs of their students and communities. We are grateful to all those who serve and support public education.

Sincerely,

Diane Deshler

Diane Deshler, President

Tatia Davenport

Tatia Davenport, CEO & Executive Director

1. How (and how well) are California public schools funded?

What are the main sources of funding for local schools?

State, local, and federal dollars support California's nearly six million students in K-12 public schools. Since 1978, by far the largest source of general operating funding for schools comes from the state budget General Fund. That's a significant change from the years before that, when most school funding came from local property tax revenues.

Funding from the state typically flows to what are called **Local Education Agencies (LEAs)**, which are school districts, county offices of education, and most charter schools. These LEAs then allocate funds for individual schools and services.

How is the state's total allocation to schools determined and how stable is the state's funding?

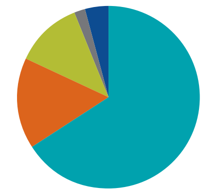
Proposition 98, passed by voters in 1998, continues to drive how much overall funding the state sends to our K-12 schools and community colleges each year.

Proposition 98 uses a complex formula to set a minimum level for funding (about 40% of state revenues) that ideally grows with the economy. However, when the state's overall tax revenue growth is low, education funding can be reduced – with the understanding that it will be restored when revenues rebound. (With a two-thirds vote, the Legislature may also take the extreme action of suspending the Proposition 98 funding requirement.)

Instead of serving as a *minimum*, Proposition 98 has most often been treated as a *maximum* by the legislature, which has rarely allocated more than the required minimum amount to schools.

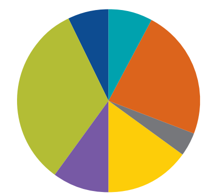
The state budget's heavy reliance on income tax as opposed to property tax revenues to support schools increases potential revenue volatility. Property values (and therefore property tax receipts) tend to vary moderately with economic cycles, as opposed to income tax receipts which are fully exposed to the booms and busts of the stock market.

2022-23 State General Fund revenue sources



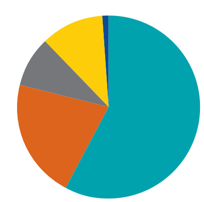
- 66% Personal income tax
- 16% Sales and use tax
- 12% Corporate tax
- 2% Insurance tax
  Alcohol beverage taxes & fees
  Cigarette tax
  Motor vehicle tax
- 4% Other

2022-23 State General Fund expenditures



- 8% Human services
- 23% Health
- 4% Natural resources
- 15% Other
- 10% Higher education
- 33% K-12 education
- 7% Corrections & rehabilitation

Main source of funding for school districts



- 58% State funds
- 21% Local property taxes
- 9% Federal funds
- 11% Other funds
- 1% Lottery

How much state funding do schools receive in total?

Due to a recent surge in overall state revenues, the 2022-23 enacted budget includes a total of $110 billion in Proposition 98 funding for schools K-14 ($95.5 billion for K-12). This is up dramatically from 2017-18 when the minimum guarantee totaled $75.2 billion. Proposition 98 funding for the 2021-22 fiscal year increased by $16 billion from the budget enacted in 2021. Thus, the year-over-year increase from revised 2021-22 Proposition 98 funding to the enacted 2022-23 funding level is .1% for K-14 and 1.6% for K-12.[1]

As revenue amounts are finalized at the end of each fiscal year in comparison to budget projections, the Proposition 98 amount is sometimes adjusted for prior years as well. In the past two years, these adjustments also reflected higher than expected revenues, and thus, even more one-time funding for schools. In total, 2022-23 enacted budget includes $32.9 billion worth of new commitments for K-12, about $15.5 billion in ongoing funding and $17.4 billion for one-time activities.[2]

What determines how most of those state funds are allocated to school districts, county offices of education or charter schools?

That amount is set mainly through the **Local Control Funding Formula (LCFF)**, a state law adopted in 2013. The LCFF allocates the same per-student Base Grant amount to each school district, plus additional levels of funding (Supplemental and Concentration Grants) for each district to support the needs of particular student groups in achieving the state's academic standards – specifcally, foster youth, English learners, and students from low-income families. The law also promotes greater local flexibility and stake-holder engagement in budget planning and decision-making. **While the LCFF determines how state funds are allocated to local districts and county offices of education, the Proposition 98 formula still largely determines how much overall state funding goes out to schools.**

Under the LCFF, total per-student funding amounts varies district to district, depending on the number of children in poverty, English Learners and foster and homeless youth. This reflects the state's fundamental commitment to equity. Total funding amounts may also differ between neighboring districts due to local revenue sources particular to those districts. Additionally, about 10% of the state's school districts are considered Community Funded Schools and receive different levels of revenues based primarily on local property taxes.

How LCFF works

All districts receive a **BASE GRANT** for each student. The Base Grant is larger for grades 9-12 than for other grades.

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If more than 55% of children in the district are higher needs, the district receives an extra 65% of the base grant for each student beyond the 55% threshold. This is called a **CONCENTRATION GRANT**. These grants recognize that it costs school districts more to effectively address the challenges of high-needs students concentrated in high-poverty communities.

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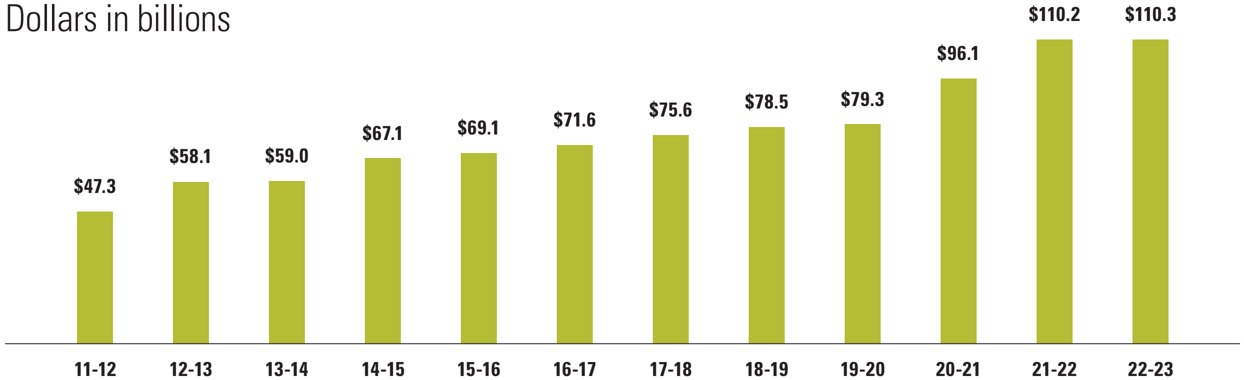
Districts receive an additional 20% **SUPPLEMENTAL GRANT** per student for students with higher needs – identified as children in poverty, English learners, and foster and homeless youth.

Proposition 98 funding: 2011-12 to 2022-23

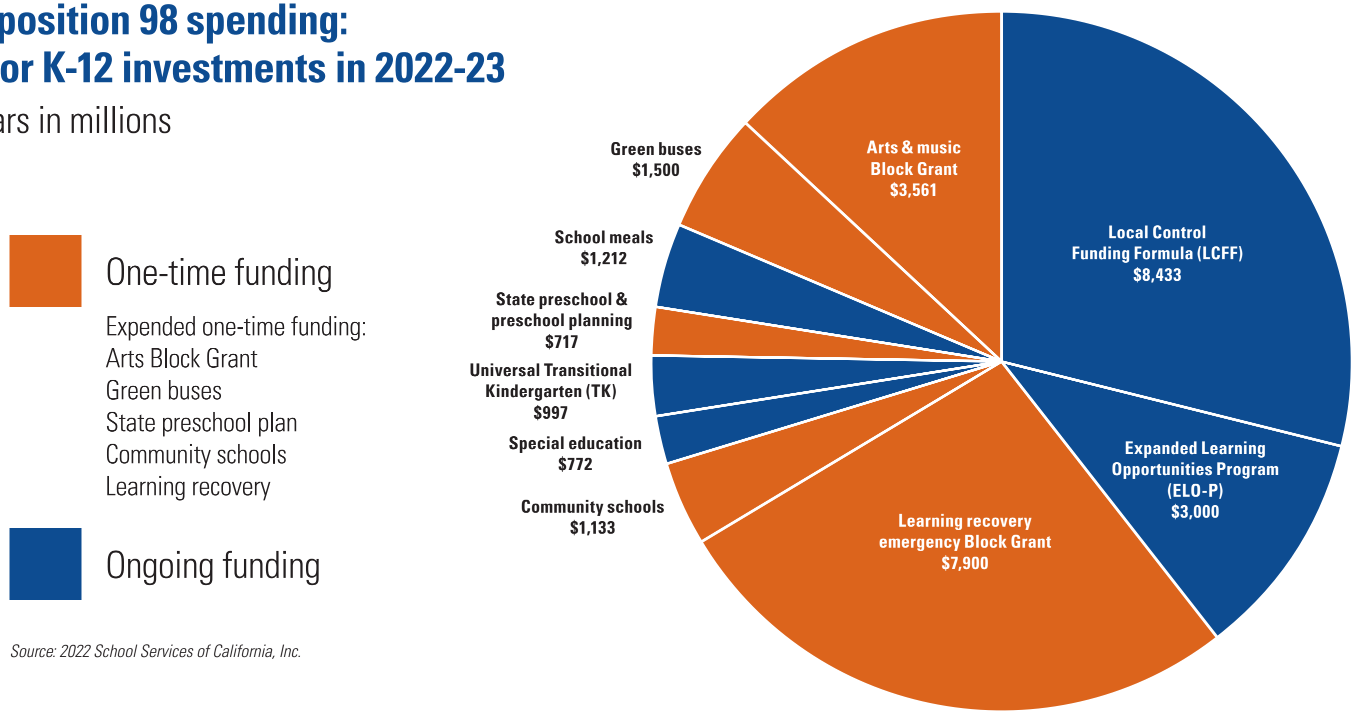
Dollars in billions



Source: Governor's 2022-23 May Revision Proposal

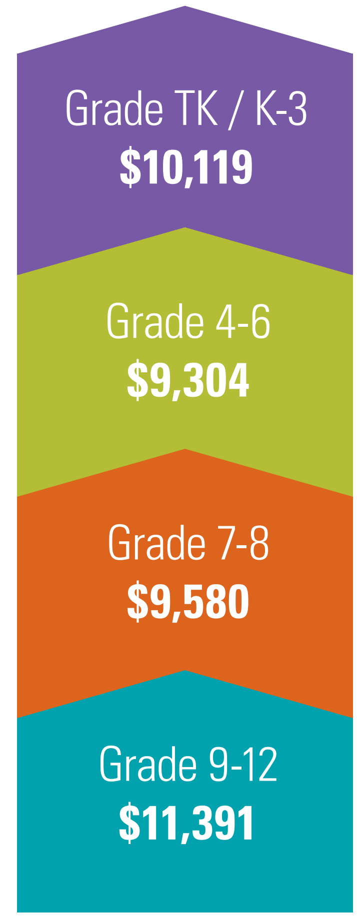
Proposition 98 spending: major K-12 investments in 2022-23

Dollars in millions



Source: 2022 School Services of California, Inc.

2022-23 Base Grant with add-ons by grade levels



Note: The Base Grant for grades K-3 receives a 10.4% increase for smaller average class sizes and grades 9-12 receives a 2.6% increase for CTE costs.

How much flexibility do schools actually have to spend the funds they receive from the state?

A central philosophy in adopting the LCFF was that local educators, leaders and their communities know best how to address the needs of their students. Thus, LCFF funding is considered "discretionary" – especially as opposed to the prior school funding system in which many funds were allocated to districts with restrictions for how they could be used and intensive compliance reporting requirements documenting their use (often referred to as the old system of "categorical programs"). While districts now have greater flexibility to decide how to spend their LCFF funds, **the past two years have witnessed a noticeable swing back by the state towards more categorical or grant-based funding for which districts must apply and/or use for certain purposes.**

Even with the flexibility established in LCFF, the amount of actual, discretionary money available from year to year for school districts can be very limited. The Base Grant must primarily support core expenses for teacher and staff salaries and health benefits, which account for the largest percentage of school expenses (typically 85-90% of a district's budget). Fixed costs for categories such as utilities and maintenance must also come out of the base. The state has also increased the obligation of districts to fund retirement and pension costs. Fiscal pressure against the Base Grant can be extreme, especially when coupled with inflation increasing faster than the growth in school districts' annual, ongoing LCFF base revenues and cost-of-living adjustment (COLA).

What is a Local Control and Accountability Plan (LCAP)?

As part of the LCFF, school districts and charter schools must adopt a **Local Control and Accountability Plan (LCAP)**. In creating this three-year plan, districts must consult with teachers, principals, administrators, other school staff, and local bargaining units. They are also required to engage with parents and students when developing and updating their LCAPs, including seeking advice from a parent advisory committee and an English learner parent advisory committee. Legislation enacted in 2022, requires school districts serving middle or high school students and county offices of education (COEs), by July 1, 2024, to either include two students on an existing parent advisory committee or establish a student advisory committee for purposes of developing and adopting the Local Control and Accountability Plan (LCAP).

Based on a template developed by the State Board of Education, each LCAP must identify goals and strategies to achieve those goals in each of eight state-identified priority areas, as well as locally determined priorities. LCAPs also must describe how districts plan to utilize additional funding from the LCFF targeted for students with higher needs to increase or improve services for those students and close achievement and opportunity gaps.

After districts adopt their LCAPs, the plans must also be reviewed and approved by the county superintendent in coordination with the approval of the district budget.

Timing of local accountability & engagement

LATE SUMMER - FALL
District engages the community to solicit input on the LCAP. Assess student needs using the CA School Dashboard.
Suggested

WINTER
District creates first draft of updated LCAP, includes community input. Analyze data from CA School Dashboard.
Suggested

SPRING
District presents proposed plan to parent advisory committees for feedback and input.
Suggested

SPRING
District responds in writing to feedback from parent advisory committees and incorporates feedback into plan.
Suggested

JULY 1
School board adopts plan by July 1st in a public hearing.
Required by Statute

OCTOBER 8
County office of education must approve district LCAPs by October 8.
Required by Statute

Eight State Priorities

In the Local Control and Accountability Plan (LCAP), school districts, in consultation with their communities, must develop goals and specific actions, as well as measurable student outcomes, for each of the eight statewide priorities and any additional locally defines priorities. These priorities are set by state statute.

CONDITIONS OF LEARNING

Priority 1 – Basic services. Providing all students with access to fully credentialed teachers in their subject areas, as well as instructional materials that align with state standards and safe, properly maintained school facilities.

Priority 2 – Implementation of state standards. Ensuring school programs and services enable all students, including English learners, to access California's academic content and performance standards, including California's State Standards for English language arts and math, and Next Generation Science Standards and English Language Development Standards.

Priority 7 – Course access. Ensuring all students have access to a broad course of study in all required subject areas including math, social science, science, visual and performing arts, health, P.E., and CTE, that prepare them for college and careers.

COMMUNITY ENGAGEMENT

Priority 5 – Student engagement. Providing students with engaging programs and course work that keeps them in school, as measured in part by attendance rates, dropout rates and graduation rates.

Priority 3 – Parent involvement. Efforts by the school district and schools to seek input from all parents, and to engage parents in decision-making, as well as promoting parent participation in programs that target the needs of their students.

Priority 6 – School climate. Factors both inside and outside the classroom that impact student success such as health, safety, student discipline and school connectedness, as measured in part by suspension and expulsion rates, and surveys of students, teachers, and parents.

PUPIL OUTCOMES

Priority 4 – Student achievement. Improving achievement and outcomes for all students as measured in multiple ways such as test scores, English proficiency and college- and career-readiness.

Priority 8 – Other student outcomes. Measuring other important indicators of student performance in all required areas of study.

Who holds districts accountable?

- District staff, parents, student community stakeholders: provide input and feedback on district's priorities.
- District Board of Education: adopts LCAP/Annual Update and budget, requests technical assistance.
- County Office of Education: approves or disapproves LCAP and provides technical assistance.
- California Collaborative for Educational Excellence (CCEE): provides technical assistance and support to school districts, county superintendents of schools, and charter schools.
- State Superintendent of Instruction (SPI): intervenes in districts that fail to improve outcomes of three or more student subgroups in one or more priorities in three out of four school years.

LCAPs must include services that target each major student subroup, including:

- **Racial/ethnic subgroups**
- **Low-income students**
- **English learners**
- **Students with disabilities**
- **Foster youth**
- **Homeless youth**

Are charter schools funded differently?

Most California charter schools are authorized by the local school district or county office of education. Similar to a school district, a charter school's per-student allocation is determined largely through the LCFF, although some slightly different rules apply related to the concentration grants calculation. Some charter schools receive their allocation directly from the state, rather than through a school district. Each charter school must adopt a Local Control and Accountability Plan.

How well are California schools funded?

As recently as May 2020, the State of California projected an overall budget deficit of more than $50 billion, and a $19 billion drop in Proposition 98 school funding. Fortunately, since that time, a surge in state revenues has dramatically improved the budget picture and increased the school funding guarantee to historic levels. Furthermore, a series of federal and state pandemic-related relief packages provided unprecedented levels of additional funding allocated to schools to meet a range of one-time needs.

How much, on average, does California spend per student? How does that compare with other states?

For many years, average per-student spending in California consistently ranked among the lowest 25% among all states, but that has been changing. In 2022-23, California is estimated to spend $15,261 per student in Proposition 98 funds. Because most state-to-state studies of per-student spending rely on pre-pandemic data, they do not reflect California's latest surge and it is challenging to make a useful assessment. That said, California likely now ranks among the top 40% of states in per-student spending or in the top 60% of states when dollars are adjusted for geographical cost of living differences. In 2012-13, California ranked 50th in the nation in per-student funding.

California serves by far the most diverse student population of any state – nearly six million students, including about six out of every 10 who are from low-income families, one in five who are English learners, one in 10 who have a disability, and a rising number who are homeless. California's ratio of students to teachers, counselors and administrators also are among the highest in the nation. A study conducted in 2018, by the American Institute for Research, determined that **California would need to spend an additional $25.6 billion (over a third more than 2016-17 levels) to ensure all students have an opportunity to meet the state's educational goals.**

Community funded local school districts

Some school districts – about 10% of the 1,000 districts in California – are funded primarily through local property taxes, rather than state funds. These are called **COMMUNITY FUNDED** or **LOCALLY FUNDED** School Districts (sometimes also known as **"Basic Aid"** districts.) Here's how they work: Once the state calculates the annual allocation for school districts using the Local Control Funding Formula, local property taxes first are counted towards meeting that allocation, then the state makes up the rest from the State General Fund. However, some districts' local property tax revenues are sufficient to meet their total LCFF amount. These districts keep all of their local property tax revenues for education purposes. From the state, they receive only the minimum Basic Aid funding required by the State Constitution – $120 per student – or as guaranteed through the Minimum State Aid provision of the LCFF. Community funded districts are found throughout the state and have student populations that vary. There are historically more community funded districts when education funding is being cut by the state and fewer when the state sets higher funding levels for education.

Source: School Services of California, Inc.

What about reports stating that California will spend more than $20,000 per student this year?

Since the COVID-19 pandemic began, the state and federal government (see below) have made substantial investments aimed primarily at providing emergency relief, promoting health and safety and accelerating recovery. Many of these additional dollars from the state were provided to schools on a one-time basis and were utilized for such things as: purchasing personal protective equipment; Covid-testing; providing meals during school closures; cleaning and disinfecting facilities; purchasing technology and materials for distance learning; academic interventions to accelerate learning recovery, and more.

By combining all state funding included in Gov. Gavin Newsom's 2022-23 proposal, such relief funds and one-time funds to settle up for prior years when revenues exceeded projections, single year spending is estimated to be $20,855 per pupil. However, not all of these funds are available to all school districts, and this does not reflect an ongoing amount for future years.

Correlation of funding to student outcomes

A review of research on the role of money in determining school quality by the Learning Policy Institute in 2017 asked the question, "Does money matter?" The answer was: "Yes. On average, aggregate per-pupil spending is positively associated with improved student outcomes." The study found that, "While there are other factors that moderate the influence of funding on student outcomes, such as how that money is spent, the association of higher spending with better student outcomes holds true, on average, in numerous large-scale studies across multiple contexts. The size of this effect is larger in some studies than in others, and, in some cases, additional funding appears to matter more for some students than for others – in particular, students from low-income families who have access to fewer resources outside of school. Clearly, money must be spent wisely to yield benefits. But, on balance, in direct tests of the relationship between financial resources and student outcomes, money matters."[5]

What about the California State Lottery – how much funding do schools receive from it?

The California Lottery is a consistent but modest source of funding for schools. For most of the past decade, the lottery has provided slightly more than 1% of total school funding, with 2% the high mark. In 2020-21, overall record sales of $8.4 billion generated an estimated $1.86 billion for schools, or about $150 per student in funds to be used for any purpose, plus about $49 per student specifically for textbook purchases. (The cost for a typical textbook may exceed $150.)

1%

Lottery funds

How much funding does California receive from the federal government?

California received $8.28 billion for K-12 education in 2019-20 from the federal budget (about 8% of the state's total revenues for schools.) The largest federal contribution is for child nutrition programs, followed by programs that support high concentrations of low-income students, the largest of which is known as Title I. States that accept federal dollars must comply with federal requirements, most significantly as stipulated in the Every Student Succeeds Act (ESSA). Additionally, federal funds go towards supporting districts in serving students with disabilities, English learners, schools impacted by military bases and other facilities, and for improving teacher quality. Federal funds also support related services for early learning and afterschool programs.

The Individuals with Disabilities Education Act (IDEA) is a law that makes available a free appropriate public education to eligible children with disabilities throughout the nation and ensures special education and related services to those children. This Act governs how states and public agencies provide early intervention, special education, and related services to more than 7.5 million (as of school year 2018-19) eligible infants, toddlers, children, and youth with disabilities, up to 21 years old.

Since March of 2020, California has received close to $30 billion in federal Covid-19 related relief funds.

Federal COVID-19 funding

In response to COVID-19, Congress passed several critical relief and stimulus packages. These acts included major funding administered by the U.S. Department of Education, most notably the Elementary and Secondary School Emergency Relief (ESSER) Fund.

Nationwide, the K-12 education system received nearly $200 billion in pandemic relief funds (about $23.4 billion for California) in three distinct rounds. These rounds of funding are often collectively referred to as: ESSER I (passed in March 2020), ESSER II (passed in December 2020), and ESSER III (passed in March 2021). Along with some other distinct COVID-relief funds, each round of ESSER included specific spending and tracking requirements and timelines, which has resulted in complex requirements for districts to manage in allocating funds during the five-year span of the programs. The timeline for spending the final rounds of funding runs through 2024. ESSER funds were allocated similar to most other federal Title I funds based on the percentage of low-income students at schools, although all schools were eligible for at least some funding.

On average, these funds amount to a small percentage (roughly $3,850 per pupil nationally or about 6%) of districts' annual operating budgets when spread out over the full period of time they can be expended, between March 2020 and September 2024. In determining how to best utilize these funds, school districts also have to balance meeting immediate relief needs as well as making multi-year investments that address the longer-term impacts of the pandemic. More information at www.cde.ca.gov/fg/cr/relieffunds.asp.

What have districts used federal COVID-19 relief dollars for?

Each round of the ESSER relief came with certain requirements for how funds could be spent and by when. In general, districts utilized much early funding to reimburse the cost of emergency expenses at the start of COVID when most schools closed, including purchasing technology devices and internet connectivity for the transition to online learning; ensuring students continued to receive school meals; and more. ESSER funds were also used to implement new and additional health and safety measures, including COVID testing, and to purchase protective equipment and upgrade air filtration systems.

The latest and largest round of federal relief (ESSER III) requires school districts to approve detailed plans for addressing learning loss/recovery as the nation emerges from the pandemic, and to take actions to support overall student well-being, which encompasses the academic, social, emotional and mental health needs of students.

How are the costs for building new school facilities or modernizing existing ones paid for?

Both the state and local school districts contribute to the cost of facilities, largely by issuing bonds. The state provides districts with financial support for new school construction and modernization projects through the **School Facility Program**, which provides grants to school districts that cover half the cost of new construction projects and a larger share for modernization. The State Allocation Board administers the facilities program, and the Office of Public School Construction (OPSC) supports and serves as staff of the Allocation Board. Since 1998, California voters have approved five statewide general obligation bond measures to fund the program. The last of these was in November 2016 and authorized seven billion for K-12 facilities and two billion for community colleges. These bond issues have provided K-12 public schools with $42.43 billion in state funding for school facility projects. The State Allocation Board membership is comprised of the Director of Finance, Director of the Department of General Services, Superintendent of Public Instruction, three members of the Senate, three members of the Assembly, and one appointee by the Governor.

Local communities also contribute to building and modernizing school facilities. Local school districts finance their share primarily with revenue raised through local general obligation bond elections and developer fees. Between 1998 and 2016, local school districts raised more than $113 billion from local school bond issues and $10.47 billion from developer fees to finance school facility improvements. Local school bonds have traditionally been popular with voters. Between 2008-2020, 73% of measures were approved; however, the passage rate dipped to 51% in 2020. These bonds are repaid through local property tax surcharges.

It is important to note that districts that are not able to pass bonds have significant unmet facilities needs, plus, even districts that have passed bonds may struggle to accomplish their facilities goals and provide equal opportunities for students because bonding capacity is tied to the value of properties in the district. According to the 2018 Getting Down to Facts II report, by the Policy Analysis for California Education, there are wide disparities in school facilities funding across districts. The largest share of the variation is related to differences in wealth: districts with higher assessed value per pupil raise substantially more revenue through local general obligation bond issues and consequently, tend to have substantially higher total facilities revenue per pupil. As a result, the system is relatively regressive. School facilities funding tends to be higher in districts with the highest median household income and lower in districts with the highest concentrations of disadvantaged or nonwhite students.

Funding for the School Facilities Program

To partially address the need, especially in the absence of a new statewide school bond, the enacted 2022-23 budget allocates $1.3 billion in state general fund (Non-Proposition 98) funding in 2022-23 and states intent to appropriate another $2.0 billion in 2023-24 and $875 million in 2024-25 to augment the School Facilities Program.

$1.3

billion in 2022-23

$2.0

billion in 2023-24

$875

million in 2024-25

What is the state's overall estimated school facilities need?

California's public schools serve nearly six million students at about 10,500-plus schools and in more than 300,000 classrooms. In 2017, it was estimated that 70% of those were more than 25 years old.

The California State Auditor estimated in a 2022 report that the state will need to provide $7.4 billion in funding to meet existing and anticipated modernization requests over the next five years. Modernization projects include: making facilities more accessible, lighting and electrical systems, air conditioning, plumbing, roofs, and technology, among others. Looking ahead even farther, researchers estimated the total need from the state and local communities for maintaining school facilities, including modernization and new construction costs, at more than $100 billion in the coming decade. About 60% of that will be needed for school maintenance and modernization. The COVID-19 pandemic has brought additional facility costs for such things as improving ventilation and maintaining safe operations. And several of the state's new initiatives, such as expanding transitional kindergarten, and community schools (see "Current Issues") create additional facilities needs.

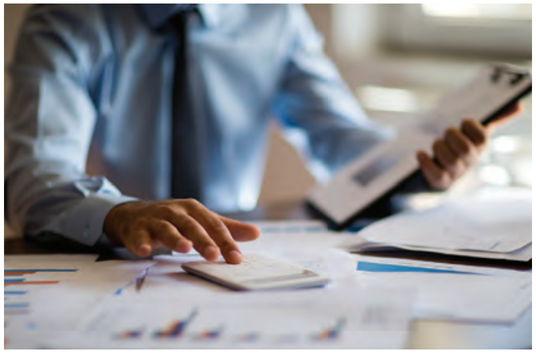
Special education in California

The federal Individuals with Disabilities Education Act (IDEA) and state law require that students with exceptional needs, ages birth to 22 years old, be provided a free and appropriate public education in the least restrictive environment. From its inception in 1974, **IDEA authorized federal funding for up to 40% of average per-pupil spending nationwide** to pay a portion of what it costs to provide special education services for students with disabilities. **Yet, federal funding has never reached this target, leaving school districts to cover the costs.**

Since the Local Control Funding Formula (LCFF) was enacted in 2013, California consolidated most state categorical programs into district base grants in order to move decision making to the local level. However, special education was preserved as California's largest remaining categorical grant operating mostly outside the LCFF governance framework.

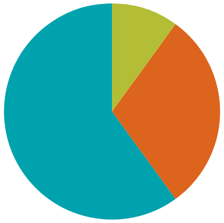
Special education funding equalization

- About 85% of California's funding is provided as categorical funds known AB 602, which provides funding to a Special Education Local Plan Area (SELPAs).
- AB 602 allocates funds based on the number of students attending within areas, not the total number of students with disabilities.
- This was done to remove any fiscal incentive so that students with special educations services would not be overidentified.
- In recent years local general fund dollars have been covering an increasing share of special education costs.
- Growth in state special education funding has not kept pace with district costs.
- Funding varies among SELPAs.
- The current formula does not adequately fund preschool programs for infants and toddlers with disabilities.
- Special education expenditures are growing in many areas of the state, due both to increases in the cost of the services and, for some local educational agencies, a greater concentration of students with exceptional needs.



Special education funding

Special education in California is funded through a combination of federal, state and local funds. Costs have increased from $10.8 billion to about $13 billion in the 2017-18 school year.



60%
Local funds

30%
State funds

10%
Federal funds

2. Current issues in school finance and business

What are some of the state's major new education-related initiatives?

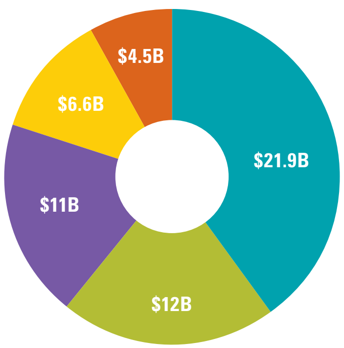
Historic levels of state revenues in the past two years have enabled the governor and legislature to launch or expand several major initiatives aimed at helping schools address students' needs, which are even greater due to the COVID-19 pandemic.

Many of these initiatives reflect a more holistic strategy to serving children and students, often referred to as a "whole child" approach. This includes more services for children beginning at an early age. The initiatives allocate billions of dollars in a combination of one-time and ongoing funding that must be used for specific purposes. Equitable access to supports and services for children and students with the most barriers to overcome is prioritized in many of the programs. Additionally, some allocations are in the form of grants for which districts must apply. Major new or expanded initiatives include:

- Promoting school readiness by expanding access to **Transitional Kindergarten** (**TK**) to all four-year-old children and increasing access to full-day, full-year **preschool programs**.
- **Expanded Learning Opportunities** for students by expanding the learning day and increasing academic and enrichment activities through before and after-school and summer programs, especially for students in low-income communities.
- **Universal Free Meals** – starting in 2022-23, all California schools must provide one free breakfast and one free lunch per school day to any student requesting a meal, as opposed to current practice where mostly only students eligible for free meals based on family income levels are served.
- Supporting the **physical**, **social**, **emotional**, **and mental health needs** of students, in part by increasing access to more programs or services at or connected to school sites.
- Creating more **Community Schools** – public schools that serve as hubs for integrating academic and student supports; expanding and enriching learning time and opportunities; actively engaging families and communities; and promoting collaborative leadership.
- Developing **college and career pathways** for high school students interested in technology, health care, education, and climate-related fields.
- **Recruiting**, **training and retaining teachers** and other staff to address critical shortages.
- Replacing diesel school buses with **electric buses** and upgrading school kitchen infrastructure.
- **Home-to-School Transportation Funding –** the state committed increased reimbursement, which hasn't happened since 2013.

The 2021-22 State Budget included massive investments in the TK-12 system to deal with pandemic impacts on the schools, but much of the funding is one-time. School districts need **ongoing** funding – especially for hiring employees and sustaining programs – to provide opportunities and support improvements in academic and social-emotional learning for students.

Over $50 billion funding increase for TK-12 system, mostly through one-time state & federal grants



- On-going state funds
- One-time debt repayment
- One-time state funds
- One-time federal funds
- One-time Proposition 98 reserve fund

Source: Children Now

Is declining enrollment an issue for California schools?

California's public K-12 school system has entered a steeper period of declining enrollments. By 2027-28, statewide enrollment is projected to fall nearly 7% (compared to 1.5% over the preceding decade). Enrollment declines accelerated in many parts of the state since the pandemic.

While not all districts are experiencing declines, enrollment in about half of all counties is declining, with larger counties experiencing more – and enrollment decline is anticipated to be persistent over the next 10 years.

Why does declining enrollment matter?

Districts with declining enrollment face increased fiscal pressures because state funding is tied to the number of students they serve. While districts can respond by "downsizing," this does not necessarily lead to budget savings because certain costs are fixed and certain "economies of scale" in services and staffing are lost.

Are there some ways to mitigate the fiscal impact of declining enrollment?

In recognition of dramatic impact on school district funding, the state enacted two policy changes to cushion school districts from some more immediate fiscal impacts of declining enrollment. School districts will be allowed to use the greater of current year or prior year average daily attendance (ADA) or an average of the three prior year's average daily attendance to calculate their LCFF funding. This change is ongoing and not limited to 2022-23. In addition, all classroom-based local educational agencies (districts, county offices of education and charter schools), that can demonstrate they provided independent study offerings in 2021-22, will be funded at the greater of their current year average daily attendance or their current year enrollment adjusted for pre-COVID-19 absence rates in the 2021-22 fiscal year. It is true that based on Proposition 98, declining enrollment overall could boost statewide per pupil spending by about $100 per student in each of the next several years. However, a loss in enrollment of 200 students could translate into nearly $3 million in lost funding for some districts, whereas an additional $100 for each of those students would add up to only $20,000.

Declining Enrollment

For the first time in this century, statewide enrollment in California dropped below six million. During the current school year, enrollment has dropped by more than 110,000 students to 5,892,240, a 1.8% dip from last year but less steep than the 2.6% decline during the first year of the pandemic.

Charter school enrollment also is down for the first time since at least 2014.

Kindergarten enrollment is up, though nowhere near pre-pandemic levels.

Sources: California Department of Education, CalMatters
calmatters.org/education/k-12-education/2022/04/california-public-school-enrollment/

What opportunities and/or challenges do the many new initiatives create?

Many of these initiatives have long been on the wish list of parents, educators and policymakers and reflect evidence-based strategies for improving student outcomes. Many open the door to achieving a more integrated system for serving children, and to better serving students and communities with higher needs. However, the number and scope of initiatives to be implemented could be challenging for districts, as could the interplay of new programs with existing programs that may have differing requirements. Additionally, the dollars the state has directed for these programs means fewer dollars allocated to school districts through the LCFF to be used at their local discretion.

The State Legislative Analyst's Office cautioned in early 2022 that school districts face ongoing cost pressures related to higher inflation and pension rate increases; challenges maintaining continuity of operations due to the effects of the pandemic on students and staff; the future of declining enrollment and program participation levels; and are already in the midst of implementing new programs and requirements. Further implementation considerations include: the limited timeline for rolling out some programs; the integration of new and existing programs with similar goals; gaps in capacity or infrastructure including qualified staff, facilities, transportation or others needed to achieve successful implementation; and long-term sustainability, given that nearly 50% of that funding is one-time in nature.

How do schools "count" students for funding purposes?

California's funding formula is based on allocating an amount per student, but how do schools count the number of students they serve for these purposes? Currently, districts must report on the number of students enrolled (that is, all students signed up to attend school), minus the daily average number of absent students. This results in what is called the ADA, which the per student allocation is based on. In effect, districts only receive funds for the average number of students who show up on a given day – not the total number of students attending school in the district. This is problematic from a school business perspective because most of a district's fixed costs, such as for teachers and staff, need to be present each day even if some students are absent. California is one of only six states that bases its per-pupil funding on ADA. A bill proposed in early 2022 by Senator Anthony Portantino, SB 830, would change this and base K-12 district funding on enrollment rather than ADA, starting in 2023-24. This measure was held in the assembly. At this time, it is not known whether the author intends to pursue enrollment based funding in 2023.

Source: EdSource

What pressures do pension costs create?

For California – as for many other states – the rising cost of pension obligations presents a serious challenge, particularly for school districts. Despite significant overall increases in state funding to schools, some districts are or may soon be in the difficult position of making budget cuts due to the need to fulfill rising pension obligations set by the state. School districts are primarily funded by the state based on the set LCFF formula – but their pension contribution rates for CalSTRS, which covers retired teachers, and CalPERS, which covers other retired public employees, are set by the Legislature. **Thus, districts have little ability locally to control these pension costs, which have risen dramatically.**

Since 2013, school districts' pension contributions have more than doubled, from 8.3% to 19.1% in 2020-21. Graph attached.

Employer contribution rates for CalSTRS and CalPERS are scheduled to increase in 2022-23, resulting in $1.2 billion in increased costs for local educational agencies (LEA) and community colleges.

Districts' pension contribution rates and amounts

Dollars in millions

	Actual			Projections[a]			
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Contribution Rates							
CalSTRS	17.1%	16.2%	16.9%	19.1%	19.1%	19.1%	19.1%
CalPERS	19.7%	20.7%	22.9%	25.4%	27.0%	28.1%	28.8%
Contribution Amounts							
CalSTRS[b]							
School districts	$5,183	$5,045	$5,413	$6,160	$6,376	$6,600	$6,830
Community colleges	438	427	464	515	533	551	571
Subtotals	**($5,621)**	**($5,472)**	**($5,877)**	**($6,675)**	**($6,909)**	**($7,151)**	**($7,401)**
CalPERS[c]							
School districts	$2,392	$2,625	$2,982	$3,277	$3,586	$3,836	$4,042
Community colleges	415	456	522	574	628	672	708
Subtotals	**($2,807)**	**($3,081)**	**($3,504)**	**($3,851)**	**($4,214)**	**($4,508)**	**($4,750)**
Total District Contributions							
School districts	$7,575	$7,670	$8,395	$9,438	$9,962	$10,436	$10,873
Community colleges	853	883	986	1,088	1,161	1,223	1,278
Totals	**$8,428**	**$8,553**	**$9,381**	**$10,526**	**$11,123**	**$11,659**	**$12,151**

[a] Projections are based on CalSTRS' and CalPERS' most recent actuarial valuations. Rates for 2022-23 are finalized, but contribution amounts for 2022-23 are estimates. Rates and amounts for subsequent years will be updated based on actual teacher payroll and investment returns, among other factors.

[b] Total contribution amounts are LAO estimates based on creditable compensation. Share of contributions from schools and community colleges through 2022-23 are based on the split of payroll from CalSTRS' creditable compensation reports. Thereafter, we assume the 2022-23 share is constant. Excludes payments made by the state on behalf of employers.

[c] Contribution amounts are estimates provided by CalPERS. Excludes payments made by the state on behalf of employers.

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

Source: LAO, July 2022

CalPERS, CalSTRS and unfunded liabilities

There are two major pension funds for employees in K–12 education in California: the California State Teachers Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS). CalSTRS, which administers pension benefits for teachers, principals, and other certificated employees such as speech therapists, school psychologists, and nurses, is the nation's second-largest public employee pension fund. CalPERS provides pension benefits for classified employees such as classroom aides, school security officers, and food services, maintenance, and clerical staff. To provide benefits to their members, CalSTRS and CalPERS funds rely on contributions from members, employers, and the state, as well as income from investments.

Unfunded pension costs are the difference between the benefits promised to employees and the current savings available in the funds to meet those financial commitments. It is this unfunded liability that has driven dramatic increases in the amount that school districts must contribute to the funds.

3. Basics of local school district budgets

What exactly is a school district budget and what is it based on?

The budget is the guiding financial plan for meeting the local school district governing board's goals and objectives for the year. It represents how much a local district estimates it will receive in income/revenue, and the maximum expenditures authorized by the board, and the balance (negative or positive) when the year is done.

Because education funding levels are essentially up for debate every year as part of the annual state budget process, school districts rely on projections but actually do not know for certain the amount of funding to be received until the state budget is approved by the end of June. Therefore, it is understood that:

- Local district budgets change and need to be revised.
- The budget should represent the policy and conceptual priorities of the organization and must inform resource allocation related to the implementation of the Local Control and Accountability Plan (LCAP).
- The budget should be balanced, and if there is deficit spending, it must be explained, and a plan developed to return the budget to a balanced state.

Budgeting in school districts is based on multi-year projections. Given that,

- A district must have the ability to accurately reflect its net ending balance and maintain a reserve for economic uncertainties throughout the budget monitoring process.
- The long-term impact of current decisions must be assessed and must be multi-year planned (current plus two years)
- The district should have tools and procedures that ensure an early warning of any discrepancies between the budgeted and actual revenues and expenses.

What are the main expenditures in school district budgets?

Teacher and staff salaries, which go towards providing instruction and instructional support to students, plus health and welfare benefits, make up about 80% of expenses in most districts.

80%

Teacher and staff salaries

What factors impact a local budget?
What are the main challenges for school districts in balancing budgets and maximizing the amounts available for student support and services?

While every school district is unique, various state and local factors can be major challenges to local district budgeting, such as:

- Enrollment uncertainties
- The number of students living in poverty, English learners, and foster and homeless youth
- The state's volatile tax structure (highly dependent on personal income tax)
- Collective bargaining costs
- Increased share of state pension costs that districts/employers are required to pay
- Rising costs to serve Students With Disabilities
- Health and welfare benefits for employees
- Rising minimum wage costs
- Utilities costs
- Staffing formulas (including what is called "Step and column," which defines compensation based on years of service/ continuing education credits as negotiated by districts and their labor unions)
- Federal funding uncertainties from year to year
- Other unavoidable costs

Who oversees local school district budgets?

Elected local governing boards approve school district budgets. State law (often referred to by its original authorizing legislation, as "AB 1200") sets additional financial standards for school districts and includes mechanisms to ensure adequate oversight. County superintendents of education are required to review and approve the annual budgets of each local school district. Districts must certify if they are able to meet their financial obligations for the current plus two additional years. County superintendents of education validate those self-certifications.

AB 1200 and subsequent related legislation was enacted to help school districts avoid insolvency; it is a progressive law and empowers county superintendents with fiscal oversight to follow a progression of interventions when necessary, ranging from information and collaborative assistance to lowering a self-certification from "positive" to either "qualified" or "negative" to taking more stringent actions such as appointing a fiscal advisor.

Can local districts raise additional revenues?

California law severely limits local school districts' revenue-raising authority compared with most other states, and also compared with what was possible in the state prior to the 1970s. Under current state law, districts can augment the local funding of their schools in just a few ways, most notably private donations (such as through local community foundations), parcel taxes (which require a two-thirds vote to assess a flat fee on each parcel of property, no matter what its size or value), and the seldom-used sales tax for schools (which also requires a two-thirds vote and can be done only at the county level). Taken together, these revenue sources currently generate a very small portion of total K–12 funding in the state, though in some communities they provide substantial amounts per pupil. About one in 10 school districts, primarily districts in the Bay Area, have approved additional taxes.

By contrast, cities and counties in California have the power to raise general taxes, primarily the sales tax, with a simple majority approval, as opposed to the two-thirds requirement for school districts. The one exception is local construction bonds, which school districts can pass with a 55% majority vote of the community. These bond proceeds must only be utilized for construction and modernization projects outlined in ballot language and cannot be utilized to offset rising General Fund expenditures.

It would take a constitutional amendment that either the legislature or voters, through an initiative, places on the ballot to provide local districts with more local revenue-raising capacity.

Basic reporting cycle for schools

The budget is a continuing cycle of planning, updating and reporting. Updates are made to the initial budget through the fiscal year, and officially adopted at the First Period Interim Financial Report (December) and the Second Period Interim Financial Report (March).

Preliminary budget	First interim	Second interim	Third interim	Unaudited actual report	Independent actual report
Board approval by July 1st	Board approval by December 15th	Board approval by March 15th	Best practice is to update 2nd interim with June estimated actuals presented with July budget for next year	Board approval by September 15th	Board approval by December 15th
Should include a 3rd interim update for CY	For time period ended October 31st	For time period ended January 31st	If qualified, 3rd interim is required by June 1st		

Note: 45 day budget revision after budget signed into law (if material changes)

What are the three major "certifications" of a district budget?

Under the provisions of AB 1200, the budget is certified either:

Positive
District will complete the year with a positive fund and cash balance; the district is solvent and can meet its obligations.

Qualified
District may not complete the year with a positive fund or cash balance; financial indicators require scrutiny/ modest intervention.

Negative
District will not complete the year with a positive fund or cash balance; aggressive corrective action is required.

About CASBO

CASBO supports public schools and school leaders in California by providing professional training and creating opportunities for collaboration in every facet of school business management and operations. CASBO represents 25,000 school business officials in all K-14 business disciplines, from Chief Business Officers to Technology, Human Resources and Facilities Directors.

CASBO supports a robust school finance system that empowers local educational agencies to invest in high-quality instructional services and programs that meet the needs of our students, as well as policies that foster local innovation to improve student achievement and create safe and optimal learning environments for our students, educators, and local communities.

CASBO recommends the following areas for local and state officials to focus on:

Funding stability
Stabilizing the state's fiscal structure and local revenue authority to ensure public education has the appropriate funding support that aligns with providing equitable and high-quality education to all of our students.

Investing in our students
We aspire towards a future that commits to putting our students' academic success first and helps schools sustain innovative programs that ensure they are college and career ready.

Supporting special education
Our students with exceptional needs deserve equitable resources to support high-quality services and early childhood intervention. Unfortunately, the federal government has not maintained its commitment to fund the Individuals with Disabilities Education Act (IDEA).

Supporting safe school environments
CASBO supports the historic partnership between the state and local school districts and county offices of education to finance school facility construction and modernization projects.

[1] Source/citation: LAO Proposition 98 July 2022 Ed Budget Figures. Proposition 98 Overview. lao.ca.gov/Education/EdBudget/Details/655

[2] Source: LAO Proposition 98 July 2022 Ed Budget Figures. lao.ca.gov/Education/EdBudget/Details/659

[3] Source/citation: LAO Proposition 98 July 2022 Ed Budget Figures. Proposition 98 Overview. lao.ca.gov/Education/EdBudget/Details/655

[4] Source: LAO Proposition 98 July 2022 Ed Budget Figures. lao.ca.gov/Education/EdBudget/Details/659

[5] Source: "How Money Matters for Schools," by Bruce Baker, Learning Policy Institute. learningpolicyinstitute.org/product/how-money-matters-report

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WestEd

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CASBO is here to help provide you with information about school finance and business in California. Contact us at (916) 447-3783 or casbo.org.