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THIRD READING

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Bill No: SB 579  
Author: Allen (D)  
Amended: 1/20/22  
Vote: 21

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SENATE EDUCATION COMMITTEE: 6-0, 1/12/22  
AYES: McGuire, Ochoa Bogh, Cortese, Glazer, Leyva, Pan  
NO VOTE RECORDED: Dahle

SENATE APPROPRIATIONS COMMITTEE: 7-0, 1/20/22  
AYES: Portantino, Bates, Bradford, Jones, Kamlager, Laird, Wieckowski

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**SUBJECT:** Education finance: local control funding formula

**SOURCE:** Author

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**DIGEST:** This bill creates an average daily attendance (ADA) hold harmless mechanism for local educational agency (LEA) apportionments under the Local Control Funding Formula (LCFF) for the 2021-22 and 2022-23 fiscal years, as specified below.

**ANALYSIS:**

Existing law:

- 1) Establishes the LCFF with per-pupil funding targets, adjustments for different student grade levels, and supplemental funding for LEAs serving students who are low-income, English learners, or foster youth.
- 2) Requires annual apportionments to school districts under the LCFF to be calculated based on the greater of current year or prior year ADA, as specified.
- 3) Requires annual apportionments to county offices of education and charter schools under the LCFF to be calculated based on current year ADA.

- 4) Requires, for the 2020-21 fiscal year, except for a new charter school that is beginning instruction in the 2020-21 school year, LCFF apportionments to be calculated based on ADA in the 2019-20 fiscal year, as specified.
- 5) Allows, for the 2020-21 fiscal year, LEAs to apply for either planned increases or actual planned growth to classroom-based student attendance, whichever is less, in lieu of their 2019-20 ADA, for purposes of their LCFF apportionment.

This bill requires apportionments to LEAs under the LCFF to be calculated as follows:

- 1) For the 2021-22 fiscal year, based on the greater of each LEA's 2019-20 or 2021-22 ADA.
- 2) For the 2022-23 fiscal year, based on the greater of each LEA's 2019-20, 2021-22, or 2022-23 ADA.

### Comments

- 1) *Need for the bill.* According to the author's office, "COVID-19 has had a massive impact on schools and school districts across the state. Despite hopes that we would return to normal in 2021, the pandemic continues to affect our schools. With the situation in flux, districts need additional time to deal with staffing, programs and their budgets. Extending hold harmless provisions will help safeguard California schools facing potential declining enrollment."
- 2) *Components of the LCFF.* LEAs receive the bulk of their funding under the LCFF based on ADA in four grade spans, with each grade span having a unique base rate. Each year, the base rates are increased by a cost-of-living adjustment. The K-3 and high school base rates are further increased to recognize the costs associated with class size reduction in the very early grades and career technical education offerings in high school. The differences among the grade span rates are largely based on historical funding factors, and are intended to recognize the generally higher costs of education at higher grade levels.

The LCFF provides additional funds for particular student groups. Under the formula, each English-learning, low-income, and foster youth student within an LEA generates an additional 20 percent of the qualifying student's grade span base rate. For LEAs whose English-learning, low-income, and foster youth student populations exceed 55 percent of their enrollment receive an additional 50 percent of the adjusted base grant for each student above the 55 percent threshold. For the purposes of generating supplemental and concentration

funding, an LEA's student count is based on a three-year rolling average, and students that meet more than one category (e.g. low-income and foster youth) are counted only once.

- 3) *California's already declining enrollment has fallen more sharply due to the COVID-19 pandemic.* Enrollment in K-12 traditional public schools in California decreased by almost three percent, or 160,000 students, in 2020-21. By comparison, the largest statewide enrollment decline in the prior 20 years was one percent in 2008-09. About one third of this decline has been centralized in kindergarten. While ongoing causes for declining enrollment continued—declining birth rates and increased migration out of California—the significant drop in kindergarten enrollment was almost certainly due to the pandemic. Many parents appear to have opted out of enrolling their children in kindergarten in 2020-21; it is unknown whether that is because preschool and other private school options remained open for in-person care longer than traditional public schools or because parents opted to keep their children home. Attendance data in 2020-21 is not available as public schools did not track attendance amidst offering virtual and/or hybrid learning for much of the year. The Legislative Analyst's Office estimates an additional decrease of about 170,000 students by 2025-26 due to declining births.

While enrollment data for the 2021-22 school year will not be publically available until this spring, the ongoing uncertainty around COVID-19, its potential variants, and vaccination rates make the future for school districts particularly uncertain.

- 4) *In response to the pandemic, attendance levels have been frozen since 2020-21 to curb the financial impact to schools.* In an effort to stabilize school funding, the 2020-21 Budget Act included a hold-harmless clause for calculating LCFF funding for the 2020-21 year by allowing 2020-21 funding to be based on 2019-20 ADA rather than 2020-21 ADA, which was expected to decline as a result of COVID-19. Subsequent legislation amended the Budget Act to provide 2020-21 growth funding for LEAs that anticipated enrollment or ADA growth.

The 2020-21 Budget also waived the annual instructional minute requirements for the 2020-21 school year, and maintained statutory minimum daily instructional minute requirements. In addition, LEAs were permitted to meet the minimum instructional minute requirements in the 2020-21 school year through in-person instruction or a combination of in-person instruction and distance learning.

While the 2021-22 Budget Act does not include a similar ADA hold-harmless provision, existing law specifies that school district LCFF funding is calculated based on the greater of prior year or current year ADA. Therefore, the 2021-22 school year is the second year in a row that districts have been held harmless from student enrollment and/or attendance declines. This bill is an attempt to provide increased fiscal certainty for school districts by freezing their ADA for purposes of their LCFF apportionments for a third consecutive year.

- 5) *School districts continue to express concerns of a fiscal cliff in the future.* As the author notes, the impacts of the COVID-19 pandemic on LEAs and their students are myriad. One result has been an increased difficulty in assessing and determining enrollment and attendance trajectories. School districts have expressed ongoing concern that a fiscal cliff caused by declining enrollment and rising mandatory obligations necessitates both short-term and long-term solutions to ensure their sustainability.

In testimony at a November 30, 2021 hearing of the Assembly Education Committee and Assembly Budget Subcommittee #2 on Education Finance, Michael Fine, Chief Executive Officer of the Fiscal Crisis Management and Assistance Team (FCMAT), stated that each decline of 120 students at the TK-3 level in a school district results in lost revenue of \$1.2 million. However, even utilizing cost reduction measures such as teacher layoffs and reductions in other areas, a typical district would only be able to mitigate about \$430,000 of that revenue loss. This would leave districts with no option but to spend budgetary reserves or resort to deficit spending.

- 6) *Amidst school districts' concerns, the state's mandatory spending on schools and community colleges is projected to reach all-time highs.* The Legislative Analyst's Office (LAO), in its 2022-23 Budget Fiscal Outlook, projects that the Proposition 98 guarantee—the constitutional formula for determining the amount of funding for schools and community colleges—will increase dramatically in all three years of the budget window. According to the LAO, “After accounting for a 5.35 percent statutory cost-of-living adjustment (COLA), deposits into the Proposition 98 reserve, and various other adjustments, we estimate the Legislature has \$9.5 billion in ongoing funds available for allocation in 2022-23. In addition, after accounting for the upward revisions in 2020-21 and 2021-22 and various smaller adjustments, we estimate that \$10.2 billion in one-time funds are available. Across the three-year period, the Legislature has \$19.7 billion to allocate for its school and community college priorities in the upcoming budget cycle. This estimate of available funding exceeds the amount in any previous outlook our office has produced.”

On the surface, concerns at the local level about a fiscal cliff can seem speculative because state funding is projected to increase. However, it is important to note that school district decisions about staffing, programs, and finances must be made well in advance of the state's budget adoption. For example, districts with declining enrollment needing to reduce staff must provide official layoff notices no later than March 15—more than three months before the state budget is passed by the Legislature and signed by the Governor. This means that even in a “typical” year, a school district must develop its fiscal and programmatic plans without knowing exactly how much state funding will be available, what its share of LCFF vs categorical and ongoing vs one-time funding will be, and what new state or federal requirements may be adopted. Because of these unknowns—and the impact of the pandemic—a significant portion of school districts find themselves needing to plan for reductions regardless of what early state funding projections look like.

- 7) *Does continuing to freeze enrollment that was already declining before the pandemic exacerbate school districts' fiscal cliff?* Despite the merits of this bill and other efforts to help stabilize school district funding during the pandemic, legacy hold harmless provisions can undermine the goals of funding formulas by locking in allocations based on old polices rather than current student needs. Hold harmless policies that exist longer than is absolutely necessary, in this case addressing enrollment and attendance declines, can end up benefiting school districts with fewer students and needs at the expense of higher need districts in the long run. This is not only true for the LCFF, which was designed to provide additional funding for districts serving English-learning, low-income, and foster youth students, but also for other attendance-based programs, such as special education.

It should be considered whether another year of freezing ADA simply results in school districts with perpetual declining enrollment postponing a right-sizing of their programs and budgets.

- 8) *Recent amendments to the bill hold charter school ADA harmless in the current fiscal year.* The author amendments dated 1/20/22 create an ADA hold harmless, for purposes of calculating LCFF apportionments, in the current fiscal year. These amendments are intended to ensure that charter schools, whose LCFF funding has historically been funded based on current year ADA only, do not experience a loss in LCFF revenue in 2021-22 due to decreased enrollment and attendance rates. The amendments do not impact school district revenues under the LCFF because, unlike charter schools, school districts have historically been funded based on the greater of current year or prior year ADA.

The California Charter Schools Association states “Because charter schools are funded on current year ADA, they will experience a huge fiscal impact due to unpredictable ADA losses in the current year, while school districts are automatically held harmless from the fiscal impact of current year ADA declines. A recent survey by CCSA found that 408 schools (79% of respondents), representing about 40% of total charter enrollment, reported that they were projecting an ADA decline of about 10% on average in 2021-22 due to low attendance caused by pandemic-related absences such as quarantines, isolations, and illness.”

**FISCAL EFFECT:** Appropriation: No Fiscal Com.: Yes Local: No

According to the Senate Appropriations Committee, the Governor’s Budget proposes to expand the LCFF declining enrollment adjustment. Under current law, school districts are funded according to their attendance in the current or prior year, whichever is higher. The Governor’s Budget proposal would credit districts with their average attendance over the three years preceding the current year if it exceeds their current and prior year attendance, resulting in an estimated \$1.2 billion each year. This bill would likely result in similar Proposition 98 General Fund costs in the high hundreds of millions, potentially over \$1 billion, per year. The current year changes for charter schools will result in additional, unknown Proposition 98 General Fund costs, which are likely to be significant.

**SUPPORT:** (Verified 1/20/22)

California School Boards Association  
Los Angeles Unified School District

**OPPOSITION:** (Verified 1/20/22)

None received

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