The 2024-25 Budget:

Proposition 98 and K-12 Education

LAO

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Executive Summary

In this report, we assess the architecture of the Governor's overall Proposition 98 budget and analyze his major proposals for K-12 education.

Overall Proposition 98 Budget

$13.7 Billion in Solutions and Reductions Affecting Schools. Proposition 98 (1988) sets aside a minimum amount of funding for schools (and community colleges) based upon a set of constitutional formulas. Due to reductions in state revenue, the Governor's budget estimates this funding requirement is down significantly over the 2022-23 through 2024-25 period. To align spending with these lower estimates, the Governor proposes $13.7 billion in reductions and other solutions affecting schools. The largest proposal is a funding maneuver that would "accrue" $7.1 billion in previous payments to schools (and $910 million in previous payments to community colleges) to future years. Under this proposal, schools would retain these payments but the state would take the associated costs off its books for several years. The other significant proposal is a $4.9 billion withdrawal from the Proposition 98 Reserve to cover school spending in 2023-24 and 2024-25. The budget also recognizes savings from lower student attendance ($1.2 billion) and proposes a one-time reduction to preschool funding that would otherwise go unused ($446 million).

$1.4 Billion in New Proposition 98 K-12 Spending Proposals. Of this amount, $784 million is for ongoing increases and $599 million is for one-time activities. The largest ongoing proposal is to cover a 0.76 percent cost-of-living adjustment (COLA) for existing programs and the largest one-time proposal is to provide additional funding for zero-emission school buses.

Overall Messages

Recommend Alternative Approach That Prioritizes Core Programs and Budget Stability. The Governor's budget avoids immediate reductions to school programs but relies heavily on solutions that shift expenditures into the future. Specifically, the budget would worsen future state budget deficits (through the funding maneuver) and set up future shortfalls in ongoing school programs (by using reserves and other one-time funds to cover ongoing costs). This approach positions the state poorly—making spending commitments the state would have difficulty sustaining and setting up more difficult choices next year. We recommend an alternative approach that prioritizes core school programs and also promotes budget stability and aligns school spending with the funding available under Proposition 98.

Plan for Further Decreases in Proposition 98 Funding by June. State revenue collections have been notably weak since the release of the Governor's budget. Based upon our most recent forecast (released in February), we estimate that funding for schools under Proposition 98 is $5.2 billion lower than the Governor's budget level in 2023-24 and $2.5 billion lower in 2024-25. We recommend the Legislature use the coming months to establish its priorities and examine the additional reductions and solutions that would be needed to address these decreases.

Significant Concerns With Proposed Funding Maneuver, Recommend Rejecting. Under this proposal, the state would be using its cash resources to finance payments to schools and creating an obligation to recognize the underlying budgetary cost in the future. In addition to worsening future budget deficits, the proposal sets a problematic precedent by decoupling payments to schools and state recognition of costs for an extended period. As an alternative, we recommend using Proposition 98 Reserve withdrawals to cover the costs of these payments.

Proposed COLA Adds to Ongoing Program Shortfall, Recommend Rejecting. The 2023-24 enacted budget relied upon nearly $1.6 billion in one-time funds to pay for ongoing school programs, and the proposed COLA in the Governor's budget would increase this shortfall to $2.2 billion in 2024-25. Given that the current Proposition 98 funding level cannot even support the cost of existing programs, we recommend rejecting the proposed COLA.

Other Ongoing and One-Time Increases Unaffordable, Recommend Rejecting. We recommend rejecting virtually all of the other increases in the Governor's budget. These proposals do not seem urgent enough to justify their additional costs amidst tight fiscal times.

Explore Additional Solutions. We recommend the Legislature consider these options:

- ***Reductions to Unallocated Grants.*** We estimate the state has about $4.5 billion in funding set aside for competitive grants that have not yet been awarded. Rescinding some of these grants would generate one-time savings.
- ***Temporary Reductions to Certain Programs.*** The state has a few ongoing programs for which districts have significant amounts of unspent carryover funding. The state could temporarily reduce funding for these programs with the expectation that districts would support the underlying activities with unspent local funds.
- ***Ongoing Reductions to Certain Programs.*** The state has provided significant increases for the Expanded Learning Opportunities Program, State Preschool, school nutrition, school transportation, and transitional kindergarten staffing in recent years. The Legislature could restructure these programs to reduce their costs.
- ***Ongoing Reductions to Antiquated Add-Ons.*** The state could obtain savings and reduce funding disparities among districts by phasing out funding that it allocates to districts based on programs they operated decades ago.

Messages on Specific Programs

In addition to our overall message on spending, we discuss several other issues that are either not specifically connected to budget proposals or have no associated costs.

School Nutrition. Given recent changes in federal regulations, we recommend the Legislature remove the mandatory participation requirement for schools newly eligible for the federal Community Eligibility Provision option. We also provide several options the Legislature may want to consider for containing future cost growth of the school nutrition program.

Educator Workforce. The Legislature may want to more carefully consider the trade-offs associated with the proposed new authorization for teaching arts in elementary schools. The proposal may make it easier for schools to hire arts teachers, but these teachers may not be as prepared to teach in an elementary and early childhood setting.

Attendance Recovery and Instructional Continuity. Although the Governor's budget does not include any funding associated with these proposed new programs, they likely would result in ongoing cost increases. If the Legislature is interested in implementing these programs, we recommend delaying them for at least one year. We also identify several associated implementation issues for the Legislature to consider.

Education Technology. Instead of providing additional Proposition 98 funding, we recommend the Legislature maximize the use of grantee reserves and carryover funds to offset operational costs of the California College Guidance Initiative and K-12 High Speed Network.

INTRODUCTION

In this report, we analyze the Governor's Proposition 98 proposals in K-12 education. The first section analyzes the administration's estimates of the Proposition 98 minimum guarantee and explains how the guarantee is likely to change in the coming months. The second section describes the Governor's plan for allocating Proposition 98 funding to schools, assesses the merits of this approach, and provides our recommendations for the Legislature to consider. The four remaining sections of this report examine the Governor's major proposals involving K-12 education. Specifically, we analyze his proposals for (1) school nutrition, (2) the education workforce, (3) attendance recovery and instructional continuity, and (4) education technology.

THE MINIMUM GUARANTEE

Proposition 98 (1988) established a minimum funding requirement for schools and community colleges commonly known as the minimum guarantee. In this section, we (1) provide background on the guarantee, (2) analyze the administration's estimates of the guarantee, and (3) explain how the guarantee is likely to change in the coming months.

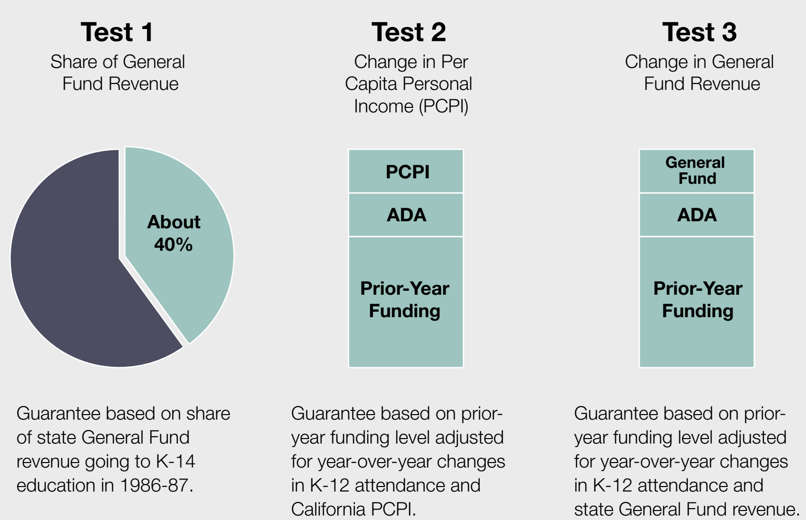
BACKGROUND ON THE GUARANTEE

Minimum Guarantee Depends on Various Inputs and Formulas. The California Constitution sets forth three main tests for calculating the Proposition 98 minimum guarantee. Each test takes into account certain inputs, including General Fund revenue, per capita personal income, and student attendance (Figure 1). Test 1 links school funding to a minimum share of General Fund revenue, whereas Test 2 and Test 3 build upon the amount of funding provided the previous year. The Constitution sets forth rules for comparing the tests, with one of the tests becoming operative and used for calculating the minimum guarantee that year. Although the state can provide more funding than required, it usually funds at or near the guarantee. With a two-thirds vote of each house of the Legislature, the state can suspend the guarantee and provide less funding than the formulas require that year. The guarantee consists of state General Fund and local property tax revenue.

At Key Points, the State Recalculates the Minimum Guarantee. The state makes an initial estimate of the guarantee when it enacts the annual budget, but this estimate typically changes as the state updates the relevant Proposition 98 inputs.

Figure 1

Three Proposition 98 Tests



ADA = average daily attendance.

Specifically, the state recalculates the guarantee at the end of the year based on revised estimates of these inputs, followed by a second recalculation at the end of the following year. When the guarantee exceeds the initial budget estimate, the state must make a one-time payment to "settle up" for the difference. If the guarantee drops, the state can reduce spending to the lower guarantee. After making these revisions, the state finalizes its calculation of the guarantee through an annual process called "certification." Certification involves the publication of the underlying Proposition 98 inputs and a period of public review. The most recently certified year is 2021-22.

Proposition 98 Reserve Sets Aside Funding for Tighter Times. Proposition 2 (2014) created a state reserve specifically for schools and community colleges—the Public School System Stabilization Account (Proposition 98 Reserve). The Constitution generally requires the state to deposit Proposition 98 funding into this reserve when the state receives high levels of capital gains revenue and the minimum guarantee is growing relatively quickly. The Constitution also requires the state to withdraw funding from the reserve under certain conditions—generally when funding is growing slowly relative to inflation and student attendance. If the Governor declares a budget emergency, the Legislature can make discretionary withdrawals. Unlike other state reserve accounts, the Proposition 98 Reserve is available only to supplement the funding schools and community colleges receive under Proposition 98.

Proposition 98 Reserve Linked With Cap on School Districts' Local Reserves. A state law enacted in 2014 and modified in 2017 caps school district reserves after the Proposition 98 Reserve reaches a certain threshold. Specifically, the cap applies if the funds in the Proposition 98 Reserve in the previous year exceeded 3 percent of the Proposition 98 funding allocated to schools that year. When the cap is operative, medium and large districts (those with more than 2,500 students) must limit their reserves to 10 percent of their annual expenditures. Smaller districts are exempt. The law also exempts reserves that are legally restricted to specific activities and reserves designated for specific purposes by a district's governing board. In addition, a district can receive an exemption from its county office of education (COE) for up to two consecutive years. The cap became operative for the first time in 2022-23 and remains operative in 2023-24.

ADMINISTRATION'S ESTIMATES OF THE GUARANTEE

Major Downward Revision to Revenues in 2022-23. The state receives most of its revenue from the personal income tax, corporation tax, and sales tax. The state ordinarily receives these revenues on a predictable schedule and adjusts its future revenue estimates based on trends in the tax collection data. To conform with federal action, the state delayed the deadline for some personal income and corporation tax payments that normally would have been due in the spring and summer of 2023 until November 16, 2023. The delay obscured significant weakness in state revenue collections that otherwise would have been evident earlier. Specifically, the delayed payments show that state tax collections for 2022-23 were nearly $26 billion lower than the levels the state estimated in June 2023.

Proposition 98 Guarantee Revised Down Substantially in 2022-23. Compared with the estimates from June 2023, the administration revises its estimate of the guarantee down nearly $9.1 billion for 2022-23 (**Figure 2**). Test 1 is operative, meaning the guarantee increases or decreases nearly 40 cents for each dollar of higher or lower General Fund revenue. In Test 1 years, changes in local property tax revenue also have dollar-for-dollar effects on the guarantee. The reduction in the guarantee primarily reflects the significant drop in General Fund revenue, but is offset slightly by a small increase in property tax revenue. This downward revision is the largest reduction to the guarantee in a prior year since the passage of Proposition 98 in 1988. By contrast, previous downward revisions to the prior-year guarantee have never been larger than a couple hundred million dollars.

Figure 2

Tracking Changes in the Prior- and Current-Year Proposition 98 Guarantee

(In Millions)

	2022-23			2023-24		
	June 2023 Estimate	January 2024 Estimate	Change	June 2023 Estimate	January 2024 Estimate	Change
General Fund	$78,117	$68,563	-$9,554	$77,457	$74,633	-$2,824
Local property tax	29,241	29,742	501	30,854	30,953	99
Totals	**$107,359**	**$98,306**	**-$9,053**	**$108,312**	**$105,586**	**-$2,725**
General Fund tax revenue	$204,533	$178,952	-$25,581	$201,213	$193,185	-$8,028

Moderate Reduction in the Guarantee in 2023-24. The administration anticipates a relatively rapid recovery for state revenues in 2023-24. Specifically, the Governor's budget assumes an 8 percent increase in General Fund revenue relative to the lower 2022-23 level, including a 12 percent increase in personal income tax receipts. Under this assumption, state revenues would be moderately below the June 2023 estimate and the Proposition 98 guarantee would be $2.7 billion (2.5 percent) below the enacted budget level. Test 1 remains operative in 2023-24, with the change in the guarantee reflecting the decrease in General Fund revenue and a small offsetting increase in property tax revenue.

Moderate Growth in Guarantee in 2024-25. The administration estimates the guarantee is $109.1 billion in 2024-25, an increase of $3.5 billion (3.3 percent) over the revised 2023-24 level (Figure 3). Test 1 is operative in 2024-25, with modest increases in General Fund revenue and local property tax revenue both contributing to growth in the guarantee. Nearly half of the increase, however, is due to two special adjustments. First, the state adjusts the guarantee up by more than $930 million to account for the arts education program established by Proposition 28 (2022). Second, it makes a further upward adjustment of more than $630 million to account for the continued expansion of eligibility for transitional kindergarten (TK). (In 2022-23, the state began implementing plan to make TK available to all four-year old children over a four-year period. As part of the plan, the state is adjusting the guarantee upward for the additional students enrolling in the program each year.) Mechanically, the state implements these two adjustments by increasing the minimum share of General Fund revenue reserved for schools under Test 1 from 38.6 percent in 2023-24 to 39.5 percent in 2024-25.

Figure 3

Proposition 98 Key Inputs and Outcomes Under Governor's Budget

(Dollars in Millions)

	2022-23	2023-24	2024-25
Minimum Guarantee			
General Fund	$68,563	$74,633	$76,894[a]
Local property tax	29,742	30,953	32,185
Totals	**$98,306**	**$105,586**	**$109,080**
Change From Prior Year			
General Fund	-$15,190	$6,070	$2,261
Percent change	-18.1%	8.9%	3.0%
Local property tax	$2,942	$1,211	$1,232
Percent change	11.0%	4.1%	4.0%
Total guarantee	-$12,248	$7,281	$3,493
Percent change	-11.1%	7.4%	3.3%
General Fund Tax Revenue[b]	$178,952	$193,185	$194,941
Growth Rates			
K-12 average daily attendance	0.9%	0.1%	-0.03%
Per capita personal income (Test 2)	7.6	4.4	4.8
Per capita General Fund (Test 3)[c]	-17.9	8.6	1.4
Operative Test	1	1	1

[a] Includes adjustment for arts education funding under Proposition 28 (2022).
[b] Excludes nontax revenues and transfers, which do not affect the calculation of the guarantee.
[c] As set forth in the State Constitution, reflects change in per capita General Fund plus 0.5 percent.

Note: No maintenance factor is created or paid over the period.

Moderate Growth in Property Tax Revenue Anticipated. The most important factor affecting local property tax revenue is the rate of growth in assessed property values. Three main factors drive this growth: (1) construction of new properties, (2) sales of existing properties (and their subsequent reassessment to market value), and (3) the annual 2 percent adjustment in the assessed value of all other properties. The administration estimates assessed values will grow 5.1 percent in 2023-24 and 4.7 percent in 2024-25. This growth assumption is somewhat below the historical average of about 5.5 percent. The administration also anticipates that some smaller property tax components will grow more slowly. Accounting for all of these factors, the overall increase in local property tax revenue is about 4 percent in each year.

Guarantee Estimated to Grow Slowly in 2025-26. Under the administration's multiyear forecast, the Proposition 98 guarantee would grow to $111.9 billion in 2025-26, an increase of $2.8 billion (2.6 percent) from the 2024-25 level. This relatively small increase builds upon underlying assumptions of minimal growth in General Fund revenue (0.5 percent) and moderate growth in property tax revenue (4.3 percent). Approximately $1.1 billion of this increase in the guarantee is attributable to an adjustment for TK.

ASSESSING ESTIMATES OF THE GUARANTEE

State Tax Collections Through January Have Been Weak. Whereas the Governor's budget anticipates a relatively strong rebound in General Fund revenue for 2023-24, state tax collections through January point to continuing weakness. Tax receipts from regular income tax withholding (the largest portion of the personal income tax) came in $1 billion (11 percent) below the estimates in the Governor's budget. Receipts from the quarterly estimated payments (the other major contributor to personal income tax revenue) were even worse, coming in $3 billion (27 percent) below the Governor's budget estimate. The state experienced additional weakness in its two other major revenue sources, with corporation tax payments significantly below projections and sales tax revenue slightly below projections. Consistent with these trends, economic indicators that are important for state revenue collections also have remained weak. For example, investment in California startups and technology companies remains depressed, and relatively few California companies are going public (selling stock to public investors for the first time).

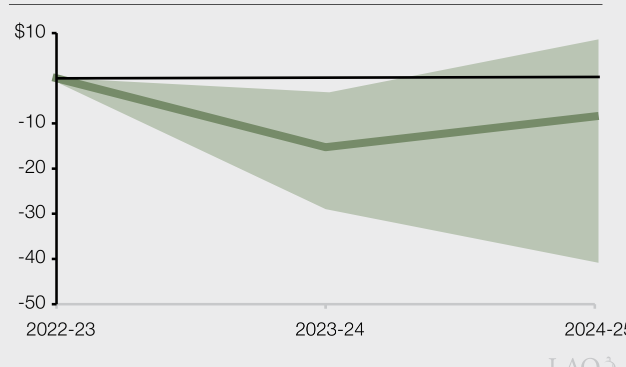
Our February General Fund Revenue Estimates Are Well Below the Governor's Budget Level. Based on the recent tax collection data, we see a high level of downside risk to the revenue estimates in the Governor's budget. Specifically, our updated estimate of General Fund revenue (released in February) is $15.3 billion lower than the administration anticipates in 2023-24 and $8.4 billion lower in 2024-25. (Across both years, these estimates are $8.4 billion lower than the estimates from our December outlook.) As Figure 4 shows, uncertainty remains for both years and final tax receipts could be higher or lower than we anticipate. Despite this uncertainty, our assessment of the most plausible scenarios (represented by the shaded area in the figure) indicates a low probability that revenues approach the levels in the Governor's budget.

Our Local Property Tax Estimates Are Slightly Above the Governor's Budget Level. Whereas our estimates of General Fund revenue are well below the levels in the Governor's budget, our estimates of property tax revenue are somewhat higher. Specifically, the estimates

Figure 4

General Fund Revenue Estimates Are Below Governor's Budget Level

LAO Forecast Minus Governor's Budget (In Billions)



from our December outlook are $590 million higher in 2023-24 and $682 million higher in 2024-25. Approximately one-third of this difference is due to our higher estimates of growth in assessed property values, another one-third is due to our higher estimates of supplemental taxes (taxes levied on properties sold during the year), and the remaining one-third is due to various differences in several smaller property tax components. Preliminary data suggest that property tax revenues are tracking closer to our higher estimates. Most notably, recent data from the Board of Equalization show that assessed property values grew nearly 6.7 percent in 2023-24, compared with the estimate of 5.1 percent in the Governor's budget.

Figure 5

LAO Estimates of Proposition 98 Guarantee Below Governor's Budget Estimates

(In Millions)

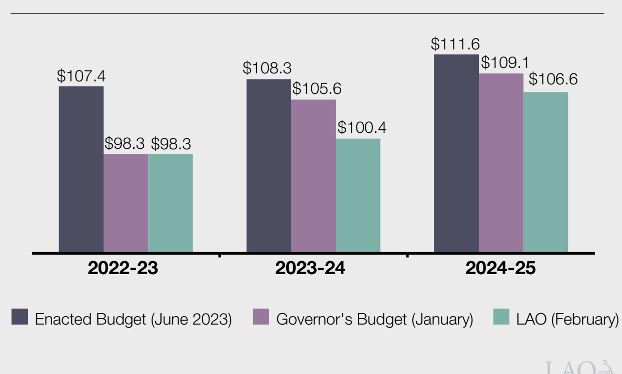
	2022-23	2023-24	2024-25	Three-Year Totals
Governor's January Budget				
General Fund	$68,563	$74,633	$76,894	$220,091
Local property tax	29,742	30,953	32,185	92,881
Totals	**$98,306**	**$105,586**	**$109,080**	**$312,972**
LAO February Estimates				
General Fund	$68,563	$68,815	$73,702	$211,081
Local property tax	29,742	31,543	32,867	94,153
Totals	**$98,306**	**$100,358**	**$106,570**	**$305,234**
Change From Governor's Budget				
General Fund	—	-$5,818	-$3,192	-$9,010
Local property tax	—	590	682	1,272
Totals	**—**	**-$5,228**	**-$2,510**	**-$7,738**

Our Estimates of the Guarantee Are $7.7 Billion Below the Governor's Budget Level. In Test 1 years like 2023-24 and 2024-25, changes in General Fund revenue and local property tax revenue both have direct effects on the Proposition 98 guarantee. Specifically, our lower General Fund revenue estimates reduce the guarantee by nearly 40 cents for each dollar of lower revenue. Increases in local property tax, however, increase the Proposition 98 guarantee on a dollar-for-dollar basis. Accounting for our February estimates of General Fund revenue and our December 2023 estimates of local property revenue, we estimate the Proposition 98 guarantee is $7.7 billion lower than the Governor's budget level over the period. Specifically, our estimates are $5.2 billion lower in 2023-24 and $2.5 billion lower in 2024-25 (**Figure 5**). For 2022-23, our estimates are unchanged from the Governor's budget level. As **Figure 6** shows, our estimates of the guarantee represent even steeper reductions when measured against the levels the state anticipated in June 2023.

Figure 6

Estimates of the Proposition 98 Guarantee Have Deteriorated

(In Billions)



K-12 SPENDING PLAN

In this section, we analyze the Governor's plan for allocating Proposition 98 funding to schools. First, we describe the Governor's overall approach and review the major spending-related solutions and proposed increases. Next, we assess the merits of this approach and analyze the most significant proposals. Finally, we provide our recommendations for the Legislature to consider. In contrast to most previous years, the largest proposal in the Governor's K-12 plan has significant implications for the rest of the state budget. The nearby box summarizes the overall condition of the state budget to provide context for this proposal. (We analyze proposals affecting community colleges separately in a forthcoming report.)

GOVERNOR'S BUDGET

Below, we explain the major components of the Governor's plan for K-12 education. We begin by explaining the overall approach, then describe the specific solutions and proposed increases.

Overall Approach

Governor's Budget Funds at the Estimates of the Minimum Guarantee. The Governor's budget proposes to reduce General Fund spending on schools to align with the lower estimates of the minimum guarantee. The budget implements these reductions primarily through cost shifts and other one-time solutions that would not have any immediate effect on school district budgets. The proposed solutions also free-up Proposition 98 funding for several one-time and ongoing funding increases. Figure 7 on page 14 lists all of the Proposition 98 solutions and spending proposals affecting schools.

Budget Solutions

Budget Contains $13.7 Billion in K-12 Spending Solutions. The Governor's budget contains four main solutions that would reduce General Fund spending by $13.7 billion across 2022-23 through 2024-25. The largest solution is a funding maneuver that would move some prior-year school spending to the non-Proposition 98 side of the budget and delay budgetary recognition of the expenditure for several years. The budget also contains discretionary reserve withdrawals, baseline savings, and a one-time reduction to unallocated preschool funds.

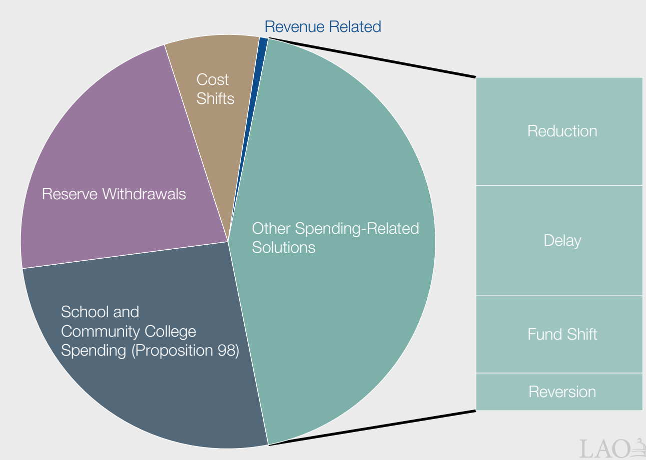
$7.1 Billion One-Time Savings From Proposed Funding Maneuver. The school spending level the state previously approved for 2022-23 exceeds the revised estimate of the Proposition 98 guarantee in the Governor's budget by $7.1 billion. The largest solution in the Governor's K-12 plan is a proposal to "accrue" spending above the guarantee in 2022-23 to future years. (The budget also proposes a similar shift affecting $910 million in community college spending.) Under the proposal, the state would reclassify the $7.1 billion above the guarantee as a non-Proposition 98 expenditure. It would remove this expenditure from its books in 2022-23, then recognize the expenditure gradually over a five-year period, beginning in 2025-26. The state would not reduce any previous payments to schools or attempt to recoup any of this funding in subsequent years. In effect, the state would be using its cash resources to finance payments to schools that exceed the Proposition 98 guarantee in the prior year and creating an internal obligation to recognize the underlying budgetary cost at some point in the future. Unlike a traditional loan, however, the state would not score this mechanism as borrowing, make payments to an external creditor, or accrue any interest. (The administration very recently released the trailer bill language associated with this proposal. We did not receive this language in time to review it for this analysis. However, this analysis reflects our best understanding of the proposal, which was confirmed by the administration.)

$4.9 Billion Discretionary Withdrawal From the Proposition 98 Reserve. The Governor proposes a $4.9 billion discretionary withdrawal to cover school spending that would otherwise exceed the minimum guarantee. Of this amount, the budget would use $2.8 billion for the Local Control Funding Formula (LCFF) in 2023-24 and $2.1 billion for LCFF in 2024-25. (The Governor also proposes a similar withdrawal of $722 million for community college programs.)

Overall Condition of the State Budget

State Facing Serious Budget Problem. A budget problem arises when the resources for an upcoming budget are insufficient to cover the costs of currently authorized services. As we explain in *The 2024-25 Budget: Overview of the Governor's Budget*, we estimate that the Governor had to solve a budget problem totaling $58 billion. The adjacent figure shows the actions the Governor proposes to address the problem. The largest set of solutions are spending related and include a mix of outright reductions, expenditure delays, shifts of costs from the General Fund to other funds and future years, and the recapture of unspent funds (reversions). These solutions are broad-based and affect nearly all areas of the budget. The Governor also proposes withdrawing funds from state reserve accounts and reducing school and community college spending to the constitutional minimum level.

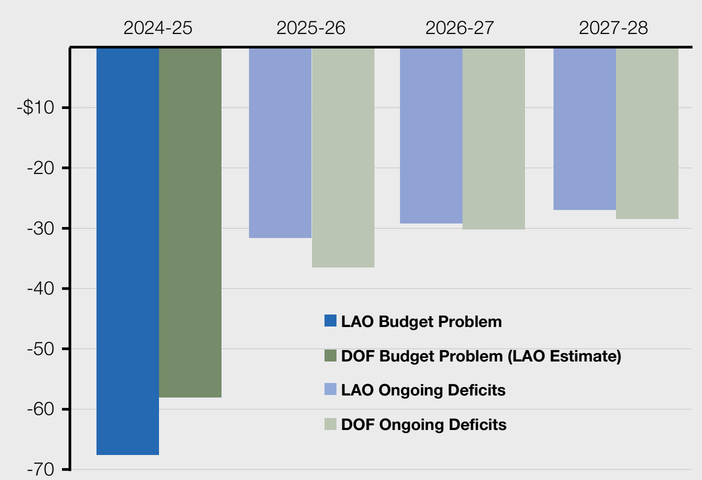
How the Governor Addresses a $58 Billion Budget Problem



Large Operating Deficits Anticipated Over the Next Several Years. Although the Governor proposes a number of spending-related solutions, the budget is likely unsustainable moving forward. As the figure below shows, both our office and the Department of Finance anticipate deficits of roughly $30 billion per year beginning in 2025-26. To place these deficits in context, they represent about 15 percent of the General Fund revenue the state expects to collect each year of the period. In terms of spending, these annual deficits are larger than the annual amount the state currently spends on the University of California, California State University, university financial aid, and child care programs combined. Although state revenues potentially could exceed our estimates for the next several years, they are unlikely to approach the level required to eliminate these deficits altogether. Moreover, if the Legislature were to adopt the Governor's budget, the state would enter future years with fewer tools to manage these deficits (such as reserves) than it has available today.

State Faces Significant Operating Deficits

(In Billions)



DOF = Department of Finance.

Figure 7

Governor's K-12 Proposition 98 Package

(In Millions)

Solutions and Reductions	
Shift prior-year costs to future budgets	-$7,097
Discretionary reserve withdrawal	-4,946
LCFF attendance changes[a]	-1,217
State Preschool savings	-446
Total	**-$13,705**
Ongoing Increases	
LCFF COLA (0.76 percent)	$564
Universal school meals	122
COLA for select categorical programs (0.76 percent)[b]	64
Training for literacy screenings	25
CA College Guidance Initiative	5
Inclusive College Technical Assistance Center	2
Homeless Education Technical Assistance Centers	2
Total	**$784[c]**
One-Time Increases	
Green school bus grants (second round)	$500
2023-24 universal school meals increase	65
Training for new mathematics framework	20
Item bank for science performance tasks	7
Instructional continuity	6
FCMAT long term planning	1
Science safety handbook	—[d]
Total	**$599**

[a] Consists of a $2.6 billion reduction from the continuing phaseout of pre-pandemic attendance funding, partially offset by a $796 million increase related to transitional kindergarten.

[b] Applies to Adults in Correctional Facilities, American Indian programs, Charter School Facility Grant Program, Child and Adult Care Food Program, Child Nutrition program, Equity Multiplier, Foster Youth Program, K-12 mandates block grant, and Special Education.

[c] The budget also proposes $2 million ongoing for a program supporting state parks access for fourth graders. This program is an existing pilot the state funded previously with non-Proposition 98 funds.

[d] Reflects $150,000.

LCFF = Local Control Funding Formula; COLA = cost-of-living adjustment; and FCMAT = Fiscal Crisis and Management Assistance Team.

These withdrawals would leave $3.9 billion in the reserve for future use. This balance exceeds the threshold triggering the cap on local school district reserves, meaning the cap would remain operative for at least another year.

$1.2 Billion Reduction in LCFF Costs From Lower Attendance. For the purpose of allocating funding under the LCFF, the state credits school districts with their attendance in the current year, previous year, or average of the three previous years (whichever is highest). Due to large decreases in attendance over the past few years, approximately 80 percent of school districts currently are receiving funding based on their three-year average. Most of these districts will experience funding declines in 2024-25 as their higher attendance levels from earlier years continue phasing out of their average. The Governor's budget estimates this phaseout will reduce LCFF statewide by $2 billion (2.6 percent). Partially offsetting this reduction, the budget estimates an LCFF increase of $796 million related to the expansion of TK. This increase consists of $635 million for base, supplemental, and concentration grant funding generated by students who are newly eligible in 2024-25 and $161 million to support lower staffing ratios for these students. Accounting for the attendance phaseout and the expansion of TK, the overall reduction in LCFF costs is $1.2 billion.

$446 Million One-Time Reduction for State Preschool. The Governor's budget proposes reducing Proposition 98 funding for State Preschool by $446 million on a one-time basis in 2024-25. This reduction reflects the administration's estimate of State Preschool funds that would otherwise go unused. The proposal is not intended to reduce rates or slots. (The Governor also proposes a reduction of $172 million for non-Proposition 98 State Preschool programs. This proposal also is intended to only reduce funds that would otherwise go unused.)

Spending Proposals

Budget Proposes Spending Increases Totaling $1.4 Billion. The Governor's budget proposes $1.4 billion in new spending for K-12 programs. Of this amount, $784 million is for ongoing increases and $599 million is for one-time activities. From an accounting perspective, nearly all of the new spending is attributable to 2024-25.

The only exception is a portion of the increase for universal school meals ($65 million) that is attributable to 2023-24.

$628 Million for 0.76 Percent Statutory Cost-of-Living Adjustment (COLA). The state calculates the COLA each year using a price index published by the federal government. This index accounts for changes in the cost of goods and services purchased by state and local governments across the country during the preceding year. For 2024-25, the administration estimates the statutory COLA rate is 0.76 percent. (This rate is relatively low by historical standards, likely reflecting decreases in energy prices that have occurred since the summer of 2022.) The Governor's budget provides an ongoing increase of $628 million to cover the associated cost for K-12 programs—$564 million for LCFF and $64 million for various categorical programs.

$500 Million for Second Round of Green School Bus Grants. The June 2022 budget plan established a program to fund zero-emission school buses and related infrastructure (such as charging stations). Trailer legislation requires the California Air Resources Board and the California Energy Commission to award grants to interested school districts on a competitive basis. The Legislature previously approved $500 million to fund the first round of grants under the program and adopted intent language to allocate additional funding in the future. The Governor's budget provides $500 million for a second round of grants.

$187 Million for Universal School Meals. The state implemented a universal meals program in 2021-22 that reimburses schools for the cost of serving two daily meals to every student. The Governor's budget provides a one-time allocation of $65 million in 2023-24 and an ongoing increase of $122 million in 2024-25 to support this program. As we explain in a later chapter, these increases are based on estimated growth in the number of meals served and an adjustment to align the state reimbursement rate with the federal rate.

$67 Million for Other Increases. The Governor's budget proposes several smaller increases consisting of nearly $34 million for ongoing programs and nearly $34 million for one-time activities. Most of these augmentations involve teacher training and professional development activities or education technology initiatives. The largest ongoing amount is $25 million to fund a new literacy screening mandate. The largest one-time amount is $20 million to provide training for teachers on the state's new mathematics framework.

ASSESSMENT

Below, we provide our assessment of the Governor's budget. We begin with the overall architecture, then analyze the specific one-time actions and ongoing proposals.

Overall Comments

Governor's Plan Recognizes a Budget Problem and Introduces a Few Reasonable Ideas. The state faces a much larger budget problem now than the one it confronted when it adopted the June 2023 budget plan. The Governor's plan for schools recognizes that the state likely cannot balance its budget without solutions that align school spending with the lower estimates of the Proposition 98 guarantee. Regarding the specific solutions, the budget sets forth a few reasonable ideas. Most notably, the Governor signals that he is willing to work with the Legislature to access funds in the Proposition 98 Reserve and identify savings in the State Preschool program. Although we critique some aspects of these ideas, they represent reasonable initial steps toward resolving the budget shortfall.

Major Concerns With Proposed Funding Maneuver. We have major concerns with the Governor's proposal to allow schools to keep cash disbursements above the minimum guarantee without recognizing the budgetary cost of those payments. This proposal creates a new type of budget solution: effectively, an interest-free loan from the state's cash resources and, as such, it sets a problematic precedent. It also creates a binding obligation on the state—one which will worsen the state's already large forecasted deficits, requiring even more difficult decisions by the Legislature in the future. It also raises transparency concerns by obfuscating the true condition of the budget. We discuss our concerns with this proposal in more detail in *The 2024-25 Budget: The Governor's Proposition 98 Funding Maneuver.*

Significantly More Budget Solutions Needed Address the Shortfall. Given the numerous drawbacks of the proposed maneuver, the Legislature likely will want to explore alternative solutions. To avoid this proposal entirely, the state would need to identify $7.1 billion in one-time (or ongoing) K-12 education solutions (and $910 million in community college solutions). In addition, the Proposition 98 guarantee is likely to decline further over the coming months. Under our latest estimates, the guarantee is $7.7 billion below the Governor's budget level across the three-year period. Assuming the state attributes 89 percent of this reduction to schools (and 11 percent to community colleges, consistent with its historical practice), the funding available for schools would be $6.9 billion lower. If the Legislature were to avoid the funding maneuver entirely and reduce funding to our lower estimates of the guarantee, the state would need to identify a total of $14 billion in reductions or solutions affecting schools. As we describe later, some of these solutions could consist of larger required reserve withdrawals. Even after accounting for larger withdrawals, however, the Legislature likely would need to explore a broad swath of options, make reductions in multiple areas, and reassess its approach to ongoing programs.

Districts Have Local Funds That Could Help Address Reductions in State Funding. Districts have three main sources of funding in their local budgets that could help address potential reductions in state funding: (1) two large and relatively flexible multiyear block grants, (2) general purpose reserves, and (3) unspent federal funds. Regarding the block grants, districts have received $6.8 billion from the Learning Recovery Emergency Block Grant (available through 2027-28) and $3.4 billion through the Arts, Music, and Instructional Materials Discretionary Block Grant (available through 2025-26). Regarding reserves, the available data show that as of June 30, 2022, districts held $10.4 billion in reserves designated for general purposes or economic uncertainty (equivalent to 11.5 percent of their annual expenditures). Although more recent data are not yet available, our understanding is that district reserves remained near these levels entering 2023-24. Finally, the available data show that as of December 31, 2023, districts held nearly $5 billion in unspent federal funds from the American Rescue Plan Act. (These funds are available for expenditure through September 30, 2024.) These three fund sources represent a much larger cushion for districts compared with the amount of local funding available during previous downturns.

One-Time Solutions

Discretionary Reserve Withdrawal Is Warranted—if Used as a Solution for 2022-23. Discretionary withdrawals from the Proposition 98 Reserve are contingent upon the Governor declaring a budget emergency and the Legislature enacting a law authorizing the withdrawal. Although the Governor has not yet declared a budget emergency, the proposal for a withdrawal signals the Governor is open to using reserves as a solution. We share the Governor's view that a reserve withdrawal is warranted, but have concerns about the way the budget would use these funds. Reserves generally provide the greatest benefit for the state budget—and for schools—when the state is facing a large, unexpected shortfall and would need to adopt disruptive alternatives if it did not withdraw reserves. The significant drop in the guarantee in 2022-23 meets all of these conditions. The Governor's budget, however, would use reserves to cover costs in 2023-24 and 2024-25, including to free-up funding for spending increases. Using reserve withdrawals to support new spending seems contrary to the core purpose of the reserve—protecting existing programs—and diminishes an important tool that could mitigate the prior-year shortfall. In addition, the estimate of the Proposition 98 guarantee is higher in 2024-25, making the case for reserve withdrawals that year less compelling.

Formulas Could Require Withdrawal of Remaining Reserve Balance. The constitutional formulas governing the Proposition 98 Reserve generally require withdrawals when the Proposition 98 guarantee is growing slowly relative to changes in inflation and student attendance. Whereas the Governor's budget anticipates relatively strong growth in the guarantee from 2022-23 to 2023-24, our estimate of the guarantee in 2023-24 reflects notably weaker growth.

Assuming the state uses a discretionary withdrawal to cover at least a portion of the drop in 2022-23, the constitutional formulas likely would require the state to withdraw the remaining balance in 2023-24. Whereas the Governor's budget has $3.9 billion remaining in the reserve, the state under our estimates would have to allocate this amount for programs.

State Preschool Reduction Is Reasonable, but Needs Additional Monitoring. The proposed reduction for State Preschool is intended to align the budgeted amount with anticipated costs of the program. While a reduction is reasonable, the Legislature will want to wait for additional program data before determining the amount necessary to continue covering program costs. One uncertainty is program enrollment. If program enrollment increases, the costs associated with providing certain payments in 2024-25 will increase. Alternatively, the state could identify other unspent funds the administration has not yet included, such as funds set aside for unallocated slots in the current year.

State Could Achieve Additional One-Time Savings by Reducing Unallocated Grants. Over the past three years, the state has approved more than $18 billion for one-time grants supporting various school activities. As of January 2024, we estimate that about $4.5 billion of this amount remains unallocated (Figure 8). The unallocated funds generally consist of competitive grants for which the state has either not finished reviewing applications or not yet disbursed funding. The grant with the largest amount of unallocated funds is the Community Schools Partnership Program ($2.6 billion). Many of the other grants with unallocated funds involve teacher training and professional development initiatives. In contrast to the approach for most other areas of the budget, the Governor does not propose revisiting any of these one-time allocations or reverting unspent funds. If the Legislature were to reduce any of these unallocated grants, it could use the savings as a one-time budget solution.

Figure 8

Estimate of Unallocated One-Time Grants

LAO Estimates (In Millions)

Program	Amount available
Community schools	$2,594
Green school bus grants (first round)	500
Golden State Pathways Program	475
Teacher and counselor residency grants	330
National board certification grants	205
Inclusive Early Education Expansion Program	163
Dual enrollment access	122
Other	108
Totals	**$4,495**

Ongoing Spending

Growing Shortfall in Ongoing Programs Sets Up Difficult Decisions Next Year. Turning to ongoing programs, the Governor's budget would expand the state's reliance on one-time Proposition 98 funding to cover ongoing program costs. Under the June 2023 budget plan, the state used nearly $1.6 billion in one-time funds to cover ongoing costs in 2023-24. This shortfall increases under the Governor's budget, growing to nearly $2.2 billion in 2024-25. (This shortfall reflects the $2.1 billion reserve withdrawal and an additional $37 million from other one-time funds.) Entering 2025-26, the state would need to make up this shortfall before it could fund other priorities. Accounting for a similar use of one-time funds for community college apportionments, the total shortfall across all K-14 programs is $2.7 billion—equivalent to nearly all of the growth in the Proposition 98 guarantee the budget anticipates in 2025-26. Having an ongoing shortfall places the state and schools in a relatively risky financial position and increases the likelihood the state is unable to maintain its commitments to existing programs next year.

Funding Statutory COLA Contributes to Ongoing Shortfall. State law automatically increases most ongoing programs by the statutory COLA rate unless the Proposition 98 guarantee is insufficient to cover the associated costs. In these cases, the law authorizes the Department of Finance (DOF) to reduce the COLA rate to fit within the K-12 portion of the guarantee. Instead of invoking this exception, the Governor's budget funds the full COLA in 2024-25 even though the guarantee cannot even support existing program costs. This budgeting approach accounts for $628 million of the $2.2 billion shortfall in 2024-25 and requires the state to rely even more heavily on one-time solutions like reserve withdrawals. Moreover, it represents the second consecutive year in which the Governor has not aligned the COLA rate with the guarantee. Whereas the estimates of the Proposition 98 guarantee from May 2023 showed the state could cover a 5.1 percent COLA in 2023-24, the Governor instead proposed funding an 8.22 percent statutory COLA. If the state had reduced the COLA rate for 2023-24, it would face little or no ongoing shortfall in 2024-25.

LCFF Cost Estimates Likely Too High. Separate from our assessment of the COLA, we think the baseline estimates of LCFF costs in the Governor's budget are likely too high. Our latest estimates are about $1.8 billion lower—$690 million lower in 2023-24 and $1.1 billion lower in 2024-25. The largest contributing factor is our treatment of TK. Although our underlying attendance estimates are similar, the Governor's budget scores the LCFF costs for these newly eligible students immediately. If a district receives funding based on its average attendance over the past three years, however, the full effect of this additional attendance will not materialize for several years. Given that most districts are funded this way, we anticipate that TK expansion will have only modest effects on LCFF costs in 2023-24 and 2024-25.

State Likely Could Achieve Additional Savings by Revisiting Recent Program Expansions. Over the past three years, the state has established or significantly expanded several large ongoing programs. Most notably, the state established the Expanded Learning Opportunities Program (ELOP), made all students eligible for free school meals, significantly increased funding for State Preschool, provided much larger reimbursements for school transportation, and funded lower staffing ratios for TK students. In 2023-24, the state will spend more than $9 billion on all of these programs combined. The Governor's budget does not propose any changes to these programs except for the one-time reduction to State Preschool. If the Legislature were to revisit any of these programs, it could likely find ways of achieving its core goals at somewhat lower cost. Reductions to any of these programs would help the state help the state address the current budget problem and align its ongoing spending level with the funding available under Proposition 98.

RECOMMENDATIONS

Below, we provide our recommendations for addressing the budget shortfall. We begin by outlining an overall approach, then recommend specific one-time solutions and ongoing actions consist with this approach.

Overall Approach

Build Alternative Budget Package That Prioritizes Core Programs and Budget Stability. The Governor's budget would avoid immediate reductions to school programs, but it relies heavily on solutions that shift expenditures into the future. The Governor's proposals would worsen future state budget deficits (through the funding maneuver) and increase the ongoing shortfall in LCFF (through reliance on one-time funds). This budgeting approach positions the state poorly—making spending commitments the state would have difficulty sustaining and setting up more difficult choices for next year. We recommend the Legislature take a different approach—one that prioritizes core school programs but also promotes stability for the budget moving forward. Taking this approach would require the Legislature to make some difficult choices this year, but offers substantial advantages. Specifically, it would (1) reduce the overall state deficit and the shortfall in ongoing programs, (2) position the state to provide funding increases for schools in the future as state revenues improve, and (3) allow the Legislature to preserve its highest priorities. **Figure 9** summarizes our recommendations.

Reject Funding Maneuver. The Governor's proposed funding maneuver is bad fiscal policy, sets a problematic precedent, and creates a binding obligation on the state that will worsen future deficits and require more difficult decisions. We strongly recommend the Legislature reject it. The state has other options to achieve budgetary savings in 2022-23 without the problematic downsides of this specific proposal.

Begin Identifying Additional Reductions and Solutions Now. We recommend the Legislature use its upcoming budget hearings to begin identifying the alternative reductions and solutions it would need to balance the budget. The next few months provide an opportune time to establish priorities, consider options, and assess trade-offs. Waiting to begin this work in May, by contrast, would place the Legislature in a difficult position and provide little time for careful deliberation. Moreover, replacing the funding maneuver and addressing the drop in the guarantee would involve identifying up to $14 billion in alternatives—likely requiring the Legislature to sift through a large number of options. The rest of this report begins this process. Specifically, it critiques the Governor's proposals with a view to reducing costs and introduces additional options that would provide a mix of one-time and ongoing savings. Adopting more of these options reduces the likelihood that the Legislature would need to make reductions to core programs like LCFF to address the shortfall.

Figure 9

LAO Recommendations for Addressing the K-12 Budget Shortfall

Overall Approach
✓ Build Alternative Budget Package That Prioritizes Core Programs and Budget Stability
✓ Reject Proposed Funding Maneuver
✓ Begin Identifying Additional Reductions and Solutions Now
One-Time Solutions
✓ Use Reserve Withdrawal to Address 2022-23 Shortfall
✓ Reject All One-Time Spending Increases
✓ Review Unallocated Funds and Reduce Lower Priority Grants
✓ Explore One-Time Reductions to Certain Ongoing Programs
Ongoing Spending
✓ Reject Statutory Cost-of-Living Adjustment Increase
✓ Reject Most Other Ongoing Proposals
✓ Plan for Lower Attendance-Related Costs
✓ Explore Changes to Ongoing Programs That Could Generate Additional Savings
✓ Consider Reducing Funding Streams That Are Based on Antiquated Factors

One-Time Solutions

Use Reserve Withdrawal to Address 2022-23 Shortfall. We recommend building a budget that (1) contains a discretionary reserve withdrawal and (2) directs the entire withdrawal toward addressing the shortfall in 2022-23. Using reserves in this way would help the state accommodate the drop in the prior-year guarantee without resorting to reductions in school programs. In contrast to the Governor's funding maneuver, this alternative works within an existing legal framework, avoids setting a troubling fiscal precedent, and does not worsen future budget deficits. To the extent the state is required to withdraw any funds that remain in the reserve after covering the shortfall in 2022-23, we recommend directing those funds toward existing program costs that would otherwise exceed the guarantee in 2023-24. Using the reserve withdrawals in this way would help the state balance its budget with fewer disruptive changes for schools.

Reject All One-Time Spending Increases. We recommend the Legislature reject all of the one-time increases proposed in the Governor's budget to achieve savings of $599 million. The largest proposal affected by this recommendation is the $500 million allocation for green school bus grants. Although the Legislature previously expressed its intent to provide additional funding for this program, the state has not yet awarded any grants from the initial $500 million it provided in previous budgets. In addition, federal grants (administered by the Environmental

Protection Agency) and local funding (administered by air quality districts) are available to support the purchase of low- and zero-emission school buses. Regarding the other one-time increases, we do not think any of the proposals are urgent enough to justify the additional spending reductions or reserve withdrawals that would be needed to fund them in 2024-25. We provide additional analysis and considerations for a few of these proposals later in this report.

Review Unallocated Funds and Reduce Lower-Priority Grants. We recommend the Legislature review existing grants with unallocated funding and reduce or eliminate any grants that do not represent its highest priorities. One reasonable starting point would be to rescind some of the funding for community schools. For example, the Legislature could rescind $1 billion out of $2.4 billion currently set aside for future rounds of implementation grants and extension grants for current grantees. This would leave about $1.1 billion for providing implementation grants to roughly 400 grantees that are currently in the planning process and eligible for implementation grants this year and next year, as well as maintain $280 million for providing two-year extension grants to current grantees. This reduction also accounts for the likelihood that in tighter fiscal times, districts are likely to have less interest in implementing the community schools model this grant is intended to support. Any savings the Legislature identifies from unallocated grants would help address the budget shortfall and reduce the likelihood of other reductions that districts might find more disruptive.

Explore One-Time Reductions to Certain Ongoing Programs. For a few ongoing programs, the state likely could make one-time reductions that districts could accommodate by drawing upon unspent carryover funding. Two of the programs for which we anticipate districts have unspent funds available are ELOP and the Special Education Early Intervention Grant. If the state were to reduce funding temporarily, most districts likely could continue to support the underlying activities by drawing upon their unspent funds from previous years. Temporary reductions to programs like these likely would be less disruptive than reductions to programs for which districts currently have little or no carryover funding. In March, the state will receive updated information about the amount of unspent funding districts had for each program at the end of 2022-23. A related solution would be to pause new grants under existing programs. For example, the state could temporarily stop making new awards under the Career Technical Education Incentive Grant Program (the state currently provides $300 million per year for these grants).

Ongoing Spending

Reject Statutory COLA Increase. We recommend zeroing out the COLA for the upcoming year. Rejecting the COLA would reduce the ongoing shortfall by $628 million and help the state avoid committing to an ongoing spending level it would have difficulty maintaining in the future. An additional consideration is that a zero COLA for 2024-25 would follow several years of very large funding increases for LCFF. Between 2019-20 and 2023-24, the state increased LCFF funding rates per student by nearly 30 percent.

Reject Most Other Ongoing Proposals. In addition to the COLA, we recommend rejecting most other ongoing increases in the budget, including the increases for school meals and the funding for literacy screeners. (We do not recommend delaying expansion of TK.) This recommendation would reduce ongoing costs by $156 million. Regarding the additional funding for school meals, the state could address the shortfall by prorating the reimbursement rate. Regarding literacy screening, we think the proposed increase is premature given that the state has not yet adopted the literacy screening tool.

Plan for Lower Attendance-Related Costs. We recommend the Legislature (1) plan to adopt lower LCFF cost estimates than Governor's budget anticipates for 2023-24 and 2024-25 and (2) use updated data that will be released within the next few weeks to calibrate its estimates. Related to these recommendations, we recommend ensuring these estimates account for the interaction between the expansion of TK and the three-year rolling average attendance calculation. Under our latest estimates, the overall cost of LCFF would be $1.8 billion lower across 2023-24 and 2024-25. The updated data, however, easily could change these estimates by several hundred million dollars in each year. Adopting lower LCFF cost estimates would reduce the size of the budget problem the Legislature needs to address.

Explore Changes to Ongoing Programs That Could Generate Additional Savings. If the Legislature were to revisit some recent program expansions, it could likely find ways of achieving its core objectives in less costly ways. The ongoing savings the state identifies through this process would help the state address the current shortfall and ease future budget pressure. Below, we outline options for reducing costs in five large programs (the amounts in parentheses indicate total spending in 2023-24):

- ***ELOP ($4 Billion).*** The state created this program in the 2021-22 budget to further fund educational and enrichment activities for K-12 students outside of normal school hours. ELOP allocations are based on attendance in elementary grades and calculated using two different per-student rates. We understand that some districts are not on track to spend all of their ELOP funds in part due to challenges in hiring staff and given that, similar to other after school programs, not all students are participating. The state has an opportunity to reevaluate whether the ELOP funding model can be simplified and/or restructured to further incentivize student participation. One option is to strengthen the fiscal incentive for districts to serve more students by distributing funds based on actual student participation rather than assume 100 percent participation. Even a relatively modest change to assume 90 percent participation would reduce costs by several hundred million dollars. (Regardless of how the Legislature proceeds, we recommend the state require districts to report data on program participation to help the state gauge student interest and ensure alignment with overall program goals.)
- ***State Preschool ($1.8 Billion).*** The state made programmatic changes to State Preschool in 2021-22 and 2022-23. The actual costs associated with implementing these changes were less than budgeted, resulting in funds that were anticipated to go unused. The 2023-24 budget package redirected these funds to cover costs associated with a new two-year collectively bargained early education and parity agreement. Beginning 2025-26, the state will again have anticipated unspent funds that could be used to ease future budget pressure. In a forthcoming brief, our office will discuss this issue in more detail.
- ***School Nutrition ($1.7 Billion).*** The implementation of universal school meals in 2022-23 and an increase in the reimbursement rate have resulted in an 827 percent increase in state funds provided to the program compared to 2018-19 funding levels. Program costs are higher than anticipated and recent projections from the California Department of Education (CDE) indicate an additional state fund shortfall. In the "School Nutrition" section of this report, we discuss options to contain future cost growth in the program while maintaining the requirement for public schools to continue offering free meals to all their students. These options include setting rates at a lower level and revisiting the approach to COLA.
- ***School Transportation ($1.2 Billion).*** School districts historically received a fixed amount of funding for transportation based on the size of the programs they operated during the 1970s. The June 2022 budget plan significantly increased funding so that every district would receive an allowance equal to 60 percent of its transportation expenditures during the previous year. If the Legislature reduced the rate to 50 percent, the state could save approximately $200 million per year while still minimizing historical funding disparities among districts.
- ***TK Staffing Add-On ($505 Million).*** In 2022-23, the state began providing additional funding based on TK attendance. (This is in addition to funding the state already provided for these students through LCFF.) To receive this funding, districts must maintain an average of 1 adult for every 12 students in TK classrooms at each school site. Beginning in 2025-26, districts must maintain an average of 1 adult for every 10 students. Our understanding is that the existing rates were calculated based on an assumption that TK classrooms would have 20 students,

aligning with the policy to have 1 adult for every 10 students. The Legislature could modify the rates to align with the current ratio. If the Legislature were to fund based on the assumption that TK classrooms have 24 students (consistent with a 1-to-12 ratio), it would result in savings of about $100 million. Next year, the Legislature could assess its fiscal situation and determine whether higher staffing ratios and associated rates could be covered within its ongoing Proposition 98 funding levels.

Consider Reducing Funding Streams That Are Based on Antiquated Factors. Another way the Legislature could obtain ongoing savings is by revisiting three LCFF add-ons that provide additional funding for certain districts based on historical factors. Unlike the core components of the formula, these add-ons are not based on the number of students districts currently enroll or the needs and characteristics of those students. Instead, they provide additional funding based primarily on the size of certain programs districts operated decades ago. Eliminating or scaling back these add-ons would reduce historical funding inequities among districts, simplify the LCFF, and provide ongoing savings. If the Legislature were concerned that eliminating these add-ons immediately would be disruptive for district budgets, it could provide for a gradual phaseout. Below, we profile these three add-ons (the parenthetical amounts indicate expenditures in 2023-24):

- ***Targeted Instructional Improvement Block Grants ($855 Million).*** This add-on provides additional funding for school districts that (1) operated desegregation programs during the 1980s, and/or (2) benefited from general-purpose grants intended to equalize district funding levels during the 1990s. The add-on is a fixed amount and unrelated to whether a district currently operates a desegregation program or the level of funding the district receives relative to other districts.
- ***Minimum State Aid ($356 Million).*** This add-on provides additional funding for school districts and COEs with high levels of local property tax revenue per student. The add-on amount is based on the level of state funding the district or COE received prior to the LCFF and is unrelated to the programs it currently operates or the characteristics of its students.
- ***Economic Recovery Targets ($61 Million).*** The state created this add-on to ensure all districts would receive at least as much funding under the LCFF as they would have received if the state had retained its former funding system and increased it for the statutory COLA. Over the past decade, the state has provided multiple LCFF increases beyond the statutory COLA. Based on these increases, all districts are likely receiving more funding than they would have received under the former system, adjusted for COLA.

SCHOOL NUTRITION

In this section, we provide background on school nutrition in California, describe the Governor's proposed augmentations, and offer options to reduce costs within the program.

Background

State Implemented Universal Meals in California. Trailer legislation related to the 2021-22 budget package required that, beginning in 2022-23, all public schools provide one free breakfast and one free lunch per school day to any student requesting a meal. (Under a temporary federal pandemic policy, schools had the option to provide free meals to all students prior to the enactment of state legislation.) The 2023-24 budget includes $1.6 billion Proposition 98 General Fund and $2.6 billion federal funding to provide a projected 813 million school meals during the academic year.

Universal Meals Relies on School Participation in Both Federal and State Programs. To receive the state reimbursement rate, schools must participate in two federal nutrition programs—the National School Lunch Program and School Breakfast Program. These federal programs have many requirements that schools must follow, such as serving meals that meet certain nutritional standards. The federal government reimburses schools for each meal served. The state supplements federal funds with additional state funds.

Federal Reimbursement Rate Varies by Household Income of Students Served. The federal nutrition programs reimburse schools based on the number of meals they serve, with the per-meal reimbursement rate varying by student household income. Students from households with incomes at or below 130 percent of the federal poverty level ($32,318 annually for a family of three) receive meals reimbursed at the "free" rate. Students from households with incomes at or below 185 percent of the federal poverty level ($45,991 annually for a family of three) receive meals reimbursed at the "reduced" rate. All other meals are reimbursed at the "paid" rate. In 2023-24, the federal government reimburses schools up to $4.35 for lunches served at the free rate and up to 50 cents for lunches served at the paid rate. Federal meal reimbursement rates are adjusted annually by a federal price index that reflects changes in the costs of meals purchased away from home.

Federal Government Gives School Districts Alternative Reimbursement Options. To be reimbursed by the federal government, schools typically must track which student is served a meal to determine the reimbursement rate. The federal government offers some alternative reimbursement options aimed at reducing administrative burden. The most common of these options is the Community Eligibility Provision (CEP), but there are three other provisions school districts can choose. Figure 10 illustrates how CEP works compared to the traditional approach. Most notably, CEP relies on an Identified Student Percentage (ISP), which is a calculation of the share of enrolled students "directly certified" for free meals. Students that are directly certified are automatically eligible for free meals due to their participation in CalFresh, CalWORKs, or Medi-Cal. (These are state programs for low-income individuals and families that provide food assistance, cash grants and supportive services, and health care services, respectively.) The state shares participation information with school districts, so these students do not need to fill out meal applications to determine eligibility.

Figure 10

Comparing Reimbursement Options

	Traditional	Community Eligibility Provision
Site Eligibility	All schools.	In 2023-24 and prior years, only schools with an Identified Student Percentage (ISP) at or above 40 percent. ISP is calculated by the share of students directly certified for free lunch, based on participation in certain programs. Beginning in 2024-25, program is available to schools with an ISP at or above 25 percent.
Method of Determining Student Eligibility	Schools directly certify students and collect meal applications.	Schools directly certify students. They do not collect meal applications.
Federal Reimbursement Rates	Schools reimbursed at free, reduced, or paid rate. Based on meal count and student household income.	ISP is multiplied by 1.6 to determine the share of meals served that will be reimbursed at the free rate. All other meals will be reimbursed at the paid rate.
Federal Reimbursement Example	School A serves ten lunches to students with household incomes at the free level and ten lunches to students with household incomes at the reduced level. School A would receive meal reimbursement for 20 lunches, half at the higher free rate and half at the lower reduced rate.	School B serves 20 lunches and has an ISP of 50 percent. School B would have 80 percent of meals served reimbursed at the free rate. School B would receive reimbursement for 16 meals at the free rate and 4 meals at the paid rate.

If Eligible, State Requires Schools to Opt in to Federal Reimbursement Flexibility. To increase federal reimbursements, state law requires schools eligible for CEP to participate in either CEP or one of the other alternative reimbursement options. This has resulted in significantly higher CEP participation. In 2018-19, 24 percent of schools participated in CEP, compared to 51 percent of schools in 2022-23.

State School Nutrition Program Supplements Federal Reimbursement. State law sets a specific state rate for meals reimbursed by the federal government at the free rate. For meals reimbursed by the federal government at the reduced or paid rates, the state provides the amount of funds necessary to ensure the combined state and federal rate is equal to combined rate for free meals. This results in free, reduced, and paid meals generating the same total reimbursement for schools. **Figure 11** shows a school lunch reimbursement example (the combined rate for breakfast is lower). A meal reimbursed by the federal government at the free rate receives the smallest amount of state funds whereas a meal reimbursed at the paid rate receives the largest amount of state funds.

State Contribution to School Meals Has Grown Significantly in Recent Years. Prior to 2022-23, the state contributed roughly 25 cents per free and reduced meal served (the state did not reimburse paid meals). In 2022-23, the state provided a discretionary rate increase of 63 cents per meal—a 238 percent increase to the state rate for a free meal. **Figure 12** shows the state contribution rate over the past six years. The state reimbursement rate for school meals is grown annually by the statutory COLA provided for LCFF and select K-12 categorical programs.

Total State Funds Provided for School Meals Has Increased Significantly. In 2018-19, the last year of comparable data not impacted by the pandemic, the state provided $164 million for the state rate of school meals. This amount has grown to $1.5 billion in 2022-23 (an 831 percent increase), due to both universal meal implementation and the 63-cent rate increase. Of this amount $1.1 billion is for lunch reimbursements, with the remainder provided for breakfast reimbursements. As **Figure 13** shows, most of the state funds provided in 2022-23 ($1 billion), are to reimburse paid meals.

Figure 11

Example of Combined Lunch Rates

2023-24

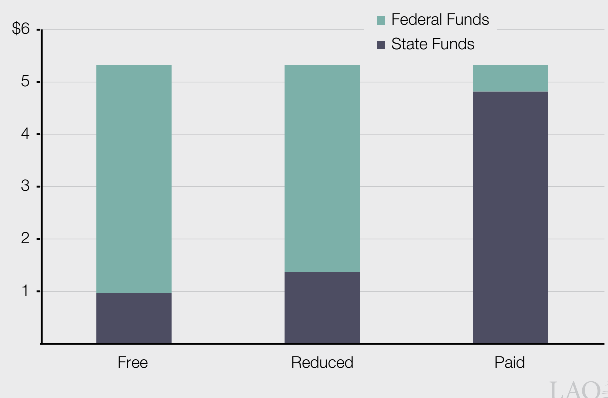
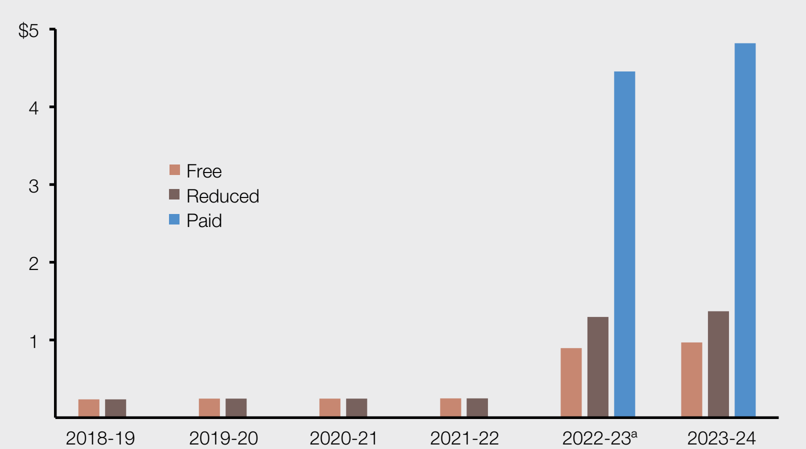


Figure 12

State Reimbursement Rate for School Lunches

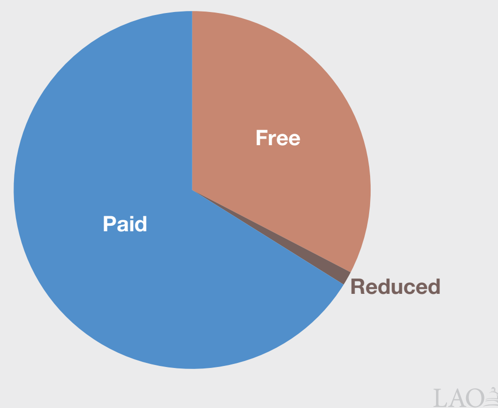


[a] Growth attributed to rate increase and universal meals implementation.

Figure 13

Most State Funds are Provided for Paid Meals

2022-23, Totals $1.5 Billion



State Recently Established Automatic Backfill for School Nutrition. Beginning in 2022-23, the budget included provisional language requiring DOF to augment the appropriation for school nutrition if expenditures are projected to exceed the amount available. CDE is to report to the administration and Legislature on or before January 20 whether the amount included in the budget is sufficient to address these costs. Prior to the inclusion of this provisional language, the Legislature had discretion over how to address the shortfall. If no additional funding was provided to address a shortfall, the state meal rate was to be prorated administratively. Since 2013-14, the state meal rate was prorated three times, but the rate was restored in all three cases. In two instances, CDE determined there were enough funds to restore the rate once it received final meal counts. In one instance the Legislature provided additional funds to cover the shortfall.

New Federal Rule Expands CEP Eligibility. In the fall of 2023, the federal government enacted new regulations that lowered the eligibility threshold for schools to participate in CEP. Beginning in 2024-25, a school can participate in CEP if it has an ISP of 25 percent or higher. Previously the requirement was an ISP of 40 percent or higher. This rule change means that schools with an ISP between 25 percent and 40 percent are now required under state law to participate in one of the federal alternative reimbursement options.

Governor's Proposal

Increases Funding by $65 Million One Time in the Current Year. The Governor's budget includes $65 million to cover an anticipated shortfall in 2023-24. The bulk of this adjustment, $48 million, is attributed to an anticipated increase in meals served in 2023-24 compared to the amount budgeted. The administration estimates lunches served will increase by 1 percent and breakfasts served will increase by 3 percent above 2022-23 meals served. The Governor also proposes to backfill $12 million that was initially provided for 2023-24 school meals, but was shifted to cover a shortfall in 2022-23. Lastly the Governor's budget includes $5 million to account for an increase in the federal COLA made available in July. An increase in the federal rate results in higher state costs for meals reimbursed at the paid rate.

Increases Funding by $122 Million Ongoing in 2024-25. For 2024-25, the Governor's budget increases funding by $122 million compared to the 2023-24 budgeted level, which is intended to cover the cost of the existing school nutrition program. Of this amount, $53 million is associated with the anticipated shortfall in 2023-24 that is expected to carry forward into 2024-25. The remainder of the growth ($69 million) is primarily attributed to the anticipated federal COLA that would increase the state contribution for meals at the paid rate. The Governor's budget assumes the paid state rate will increase to $5.13 per lunch, reflecting a 6 percent increase from 2023-24. The administration indicated this estimate will be revised as more data becomes available.

Increases Funding by $13 Million to Provide State COLA. The Governor's budget also provides $13 million to provide a 0.76 percent COLA for school nutrition rates. This increases the state contribution for a free meal from 96.9 cents to 97.6 cents.

Assessment

Program Costs Have Been Higher Than Anticipated. In the first two years of implementing universal school meals, costs for the program have exceeded estimates in the enacted budget (see **Figure 14**). In 2022-23, the state budgeted $1.4 billion for school nutrition programs, while costs came in $122 million higher. For 2023-24, the Governor's budget includes a $65 million increase to the $1.6 billion included in the June 2023 budget plan. CDE's recent required January report, however, anticipates needing an additional $61 million above what was proposed at the Governor's budget to cover current-year nutrition costs. This would bring total costs to $1.8 billion. CDE also projects 2024-25 costs will be $226 million higher than proposed in the Governor's budget. As we discuss below, these higher costs are associated with its estimates of implementing the new federal rule change.

Increase in Share of Meals Served in the Paid Category. One reason school nutrition costs have been higher than expected is the change in the category of meal served. **Figure 15** shows lunches served by category in 2018-19 compared to 2022-23. Although the total number of lunches served was relatively stable, schools served 78 million more lunches in the paid category in 2022-23 compared to 2018-19. This contributes to increased state costs since the state share of reimbursement is higher for meals at the paid level compared to those at the free or reduced level. During this period, the share of students that qualify for free or reduced-price lunch has remained stable. In 2018-19, 59.4 percent of students were eligible for free and reduced-price meals compared to 59.9 percent in 2022-23.

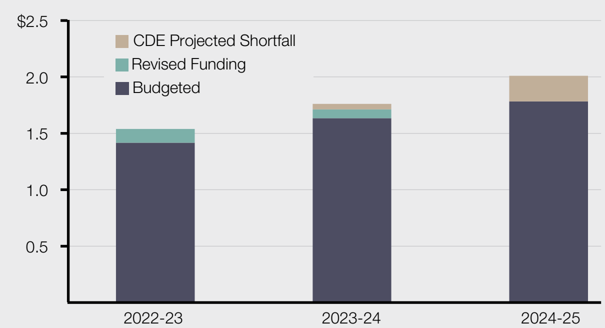
State Costs Grow Due to Federal COLA. Under the Governor's budget, the combined federal and state reimbursement for lunch is projected to grow 4.7 percent in 2024-25. This is a much higher rate of growth than the 0.76 percent COLA that is assumed under the Governor's budget in other select K-12 education programs. Under the Governor's budget, state costs for lunches reimbursed by the federal government at the paid rate are anticipated to grow 6.6 percent. This higher growth rate in costs is due to the state's policy that paid meals receive the same combined rate as free meals.

Provisional Language Limits Options to Contain Nutrition Program Costs. Provisional language added as part of the 2022-23 budget package requires the administration provide additional funds for school nutrition programs if CDE projects a shortfall. Prior to this provisional language, a shortfall would result in meal rates being prorated, unless the Legislature provided an additional augmentation. While the new provisional language was intended to give schools more certainty regarding their state funding, it limits Legislative options in cases where the number of meals served or the cost of those meals exceeds the projected amount included in the annual budget.

Figure 14

State Has Increased Funding to Account for Projected Shortfalls

(In Billions)

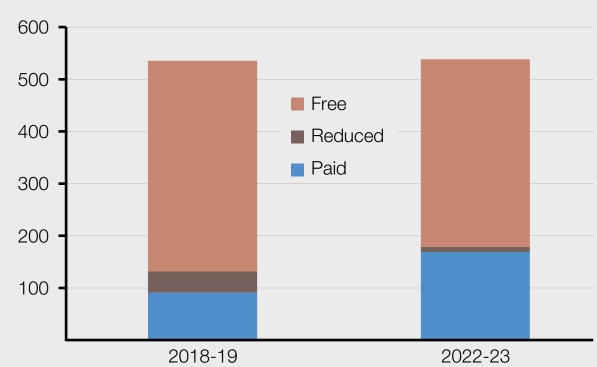


CDE = California Department of Education.

Figure 15

Higher Share of Lunches Served Are in Paid Category

Number of Lunches Served (In Millions)



Federal Rule Change Could Increase State Costs. Both DOF and CDE have provided estimates of state costs associated with the federal rule change that expands CEP eligibility. DOF assumes that the rule change will not impact the number of school meals served, but will impact the categories in which the meals are reimbursed. DOF assumes the shifts in categories will result in minor state costs of $172,000. These costs are included in the Governor's budget. CDE alternatively estimates roughly 81 million more meals will be served as a result of the rule, resulting in a $226 million increase in state costs above the funding level in the Governor's budget.

Required Participation in Federal Alternative Reimbursement Options May No Longer Maximize Federal Funding. A key goal of requiring schools to participate in an alternative federal reimbursement option is to maximize federal reimbursements (thereby reducing state costs of implementing universal school meals). However, some newly eligible CEP schools may be better off from a federal meal reimbursement perspective using the traditional reimbursement process. This is because the CEP formula sets the proportion of meals reimbursed at the free and paid rates using a school's ISP—a metric that is not used in traditional reimbursement. The effect of participating in CEP will depend on each school's specific ISP and the share of meals it serves at each rate. To assess the effects of these schools shifting to CEP, we developed projections of school reimbursement amounts using 2022-23 meal data. Based on our analysis, we estimate roughly half of schools newly eligible for CEP would receive greater federal reimbursement under CEP. The other half of newly eligible schools would receive greater federal reimbursement under the traditional approach. To explain how a school could receive more federal reimbursement under the traditional approach, we can use as an example a school that received the free or reduced-price rate for two-thirds of the lunches it served in 2022-23 and has an ISP of 29 percent. Under the traditional approach, the school received the state paid rate for one-third of lunches served. In contrast, under CEP the school would have 54 percent of its meals reimbursed at the paid rate. (The school's ISP of 29 percent would be multiplied by 1.6 to determine the share of meals reimbursed at the free rate [46 percent]. The remainder would be reimbursed at the paid rate.) If this school had been required to participate in CEP in 2022-23, it would have received less federal funding due to the increase in lunches reimbursed at the paid rate. This also would have resulted in a corresponding increase in state funds needed to cover these meal costs. Requiring these schools to participate in a federal reimbursement option would result in the state paying for a higher share of their meal costs. This analysis does not account for anticipated meal growth from either universal meals or CEP participation.

Options for Containing Future Cost Growth

Given the budget situation, the Legislature may want to be proactive in containing future cost growth in the school nutrition program. In the "K-12 Spending Plan" section of this report, we recommend the Legislature reject the COLA for all K-12 programs this year and reject the other proposed adjustments to school nutrition. This is because Proposition 98 funding is not sufficient to cover the state's current ongoing spending level. In this section, we identify several options for further containing the growth of the school nutrition program in 2024-25 and future years. These options are focused on reducing state reimbursement rates and maximizing the amount of federal funding the state receives for school meals. They would not change the requirement that public schools offer free meals to all their students.

Set Nutrition Rates at a Lower Level. Given the budget condition, the Legislature may want to consider reducing the state reimbursement rate. The Legislature could provide an across-the- board reduction where all meals served would receive a lower state contribution per meal. We estimate reducing the state rate by 63 cents (the size of the discretionary rate increase provided in 2022-23) would result in $541 million in savings in 2024-25. Alternatively, the Legislature could take a more targeted approach and decide to reduce reimbursement rates for a specific reimbursement level, such as paid meals.

Revisit Approach to COLA. Given the current approach to the COLA in school nutrition is much more generous compared to other areas in K-12 education, the Legislature may want to revisit how it sets annual rate increases. One option is to no longer provide the federal COLA to the paid rate. This would mean that the combined state and federal *free* rate would grow at a different pace from the combined state and federal *paid* rate. A second option is for the state to suspend the automatic COLA adjustment for school nutrition and decide on an appropriate inflationary adjustment annually as part of the budget process. In deciding the annual change to rates, the Legislature could take into consideration the projected federal COLA and anticipated total meal costs.

Suspend Administrative Augmentation Authority. The Legislature could remove the provisional language that requires the administration to provide additional funds for school nutrition programs if CDE projects a shortfall. The Legislature could instead decide on an amount through the budget process. In the event of a projected shortfall and if budget conditions allow, the Legislature could provide an additional augmentation. This allows the Legislature to consider increases in the school nutrition program along with other priorities within K-12 education.

Remove Mandatory Participation Requirement for Newly Eligible CEP Schools. Given the likely state costs associated with newly eligible schools using CEP, we recommend the Legislature amend the existing state participation requirement. The Legislature could maintain the requirement for previously eligible CEP schools (schools with an ISP of 40 percent or higher). For newly eligible CEP schools, the Legislature could allow CEP participation only if schools demonstrate their projections indicate this option would maximize federal meal reimbursements.

EDUCATION WORKFORCE

In this section, we analyze key educator workforce proposals included in the Governor's budget. Overall, we recommend rejecting all new spending proposals given the state does not have sufficient Proposition 98 funding to meet existing commitments. We also recommend rejecting one new spending proposal due to the premature or duplicative nature of the proposal. We also assess the possible benefits and trade-offs of proposals that have no associated costs.

LITERACY SCREENING

Background

Beginning in 2025-26, Local Education Agencies (LEAs) Must Annually Screen K-2 Students for Risk of Reading Difficulties. Enacted as part of the 2023-24 budget package, the required screenings are meant to assist with early identification of students that may benefit from additional support with literacy. They are not intended to diagnose disabilities that would make a student eligible for special education. If a student is identified as being at risk of having reading difficulties, LEAs—school districts, charter schools, and COEs—will be required to provide the student with targeted supports and services, such as one-on-one or small group tutoring, early reading interventions, or further diagnostic assessments. Students would be screened for risk of reading difficulties in their primary language, to the extent a tool is available in that language. Parents or guardians can request their child be exempt from the reading difficulty screening. LEAs may only use a screening tool that has been included in the state's pre-approved list. To develop this list, the 2023-24 budget included $1 million for the State Board of Education to convene an independent panel of experts to choose the approved screening instruments. As of January 2024, all panel members have been selected and monthly panel meetings are expected to take place from February 2024 through December 2024. The list of pre-approved screening tools must be completed by December 31, 2024.

State Provides LEAs Funding for Required Activities Through the K-12 Mandates Block Grant. In some cases, when the state enacts a new requirement for schools, it appropriates funds in the annual budget to cover the associated costs. In other cases, the state uses the mandates process, which is administered by the Commission on State Mandates (the Commission). After a new requirement takes effect, school districts can submit a test claim with the Commission to seek reimbursement for actual implementation costs. State law creates two options for receiving reimbursement: through a claims-based process or from the K-12 mandates block grant. The vast majority of LEAs participate in the block grant. The block grant provides LEAs with a fixed per-student rate that varies by LEA and grade level. For example, in 2023-24,districts that chose to be reimbursed through the block grant received $37.81 for each K-8 student and $72.84 for each high school student. The per-student rate is adjusted every year by the K-12 COLA. The state also increases the block grant rates when a new activity is found to be a reimbursable mandate. Typically, the increase is developed as part of the annual budget process and is based in part on an analysis of claims submitted by school districts.

Governor's Proposal

Adds $25 Million Ongoing to the K-12 Mandates Block Grant for Training on Reading Difficulties Screening Tools. These funds are intended to primarily cover costs associated with trainings for educators to administer the reading difficulties screener tools. The funds would be distributed to LEAs based on their enrollment of K-2 students in the prior year (excluding TK).

Assessment

Proposed Training Funds for Reading Difficulties Screening Tool Are Premature. We find the proposed training funds to be premature since the approved list of screening tools has not been finalized and funds are being added to the block grant earlier than needed under the traditional claims-based process. We provide more detail on these two reasons below.

The Approved List of Screening Tools Has Not Been Finalized. The selection panel for the reading difficulties screener tool is scheduled to meet on a monthly basis from February 2024 through December 2024. The panel likely will finalize the list of approved tools sometime at the end of 2024. This means that LEAs would have about six months to select a screening tool, create or procure training, and administer the training activities prior to the start date of the required annual screenings. Given this time line, LEAs may not be able to spend these funds in 2024-25. Moreover, estimating the costs associated with these training activities is difficult given the screening tools have not yet been selected. We believe the state would be in a better position to accurately estimate the scope and total costs of implementation activities next year.

Adds Funds to K-12 Mandates Block Grant Earlier Than Needed. Under the normal K-12 mandates block grant process, funding is not added to the block grant until the required activity has become state law, the Commission has deemed the activity to be a reimbursable mandate, and districts have submitted claims for actual costs associated with required activities. This means that districts would submit a mandate claim associated with the reading difficulties screener after the requirement has taken effect. One reason the state takes this deliberate process is to ensure that the amount added to the block grant reflects costs LEAs will face on an ongoing basis. However, the Governor's budget proposal augments the mandate block grant without conducting a realistic cost estimate. Furthermore, the Governor's budget proposal keeps training costs flat on an ongoing basis, while we believe training costs would likely decrease after the first year. We understand that the administration intends to revisit the training augmentation and possibly adjust funding levels based on actual cost data in 2025-26. However, the Governor's budget does not include trailer bill language that would require this to occur. Additionally, once the costs for a new mandate are added to the K-12 mandates block grant, the state typically does not revisit the amounts in the future.

Recommendation

Delay Implementation Date of Reading Screening Requirement Until the State Can Properly Assess Ongoing Training Costs. We believe it is premature to provide funding on an ongoing basis for training activities prior to knowing the exact screener tools LEAs could use, the number of educators that would need to be trained, and the scale of ongoing training needs. Additionally, LEAs may have a limited amount of time to start up and complete training activities prior to the required implementation date. By delaying the implementation date of the reading difficulties screening requirement, the state would have time to calculate a realistic and appropriate cost estimate. Additionally, delaying the implementation date would give the Legislature more time to consider the benefits and trade-offs of funding training activities either through the K-12 mandates block grant or annual budget process. For example, funding training activities through the annual budget process gives the Legislature more flexibility to right-size funding levels based on actual expenditures in any given year. Delaying implementation also would avoid adding $25 million in ongoing Proposition 98 costs in a time when Proposition 98 funding cannot support existing commitments.

MATHEMATICS FRAMEWORK ACTIVITIES

Background

The State Board of Education Adopted New California Mathematics Framework in June 2023. The state periodically enacts curriculum frameworks associated with the state's academic content standards. These frameworks are intended to provide guidance on how to teach each content standard in a given subject. The newly adopted Mathematics Framework provides guidance to educators on various curriculum and instruction approaches to help students achieve math proficiency based on current content standards. Specific guidance is provided for different grade levels, math subjects, and students, such as high achieving students and English learners (ELs). Additionally, the Mathematics Framework offers multiple strategies to support learning recovery.

Learning Recovery Emergency Block Grant Created to Support Academic Learning Recovery and Social and Emotional Well-Being of Students and Staff. The Learning Recovery Emergency Block Grant was created as part of the 2022-23 budget package. The state initially provided $7.9 billion in one-time Proposition 98 funding for the block grant, but this was revised to $6.8 billion in the 2023-24 budget package. LEAs may use funds for a variety of academic and social-emotional activities, including increasing instructional learning time, providing tutoring and other academic services, offering additional instruction to students not on track to graduate, and addressing other barriers to learning. Funding is distributed to LEAs based on the number of students who are EL or low income and is intended for learning recovery initiatives through 2027-28.

Governor's Proposals

Clarifies LEAs Could Use Learning Recovery Emergency Block Grant Funds for Mathematics Framework Professional Development. These professional development activities could include hiring math coaches, providing training, and contracting with external organizations to create math-based instructional tools.

Provides $20 Million One-Time Proposition 98 for Instructional Resources and Training for Math Coaches. The funds would be awarded to one or more COEs to assist educators in delivering high-quality math instruction pursuant to the Mathematics Framework. Specifically, the COEs would be required to partner with the California Mathematics Project to develop a training model for math coaches and provide other resources to educators on how to deliver high-quality math instruction based on the Mathematics Framework. (The California Mathematics Project is part of the University of California Subject Matter Projects, which provide professional learning in nine K-12 subject areas.) These funds would be available to spend through June 30, 2028.

Assessment

Seems Reasonable to Clarify Block Grant Could Be Used for Mathematics Framework Professional Development. Providing professional development opportunities to help educators implement the Mathematics Framework guidance is aligned with the broader block grant objective of accelerating student academic proficiency and closing learning gaps. Between 2019 and 2022, the share of California students that met or exceeded state standards in math decreased from 39.7 percent to 34.6 percent. Training to implement the Mathematics Framework can help educators implement instructional and curriculum approaches that successfully accelerate learning.

Proposed Funding for Instructional Resources and Training Math Coaches Seems Duplicative of Existing Block Grant Activities. Under current law, Learning Recovery Emergency Block Grant funds can already support learning recovery programs and materials designed to accelerate student academic proficiency. Additionally, the proposed clarification of allowable block grant activities would further allow LEAs to train math coaches and provide educators with other math instruction resources. As a result, providing additional funds for instructional resources and training math coaches seems duplicative.

Recommendations

Approve Clarification That Learning Recovery Emergency Block Grant Funds Can Be Used for Mathematics Framework Professional Development. Using block grant funds for Mathematics Framework professional development aligns with and further supports the overall goal of accelerating learning and closing the learning gaps.

Reject Duplicative Funding for Instructional Resources and Training for Math Coaches. We recommend rejecting the proposed augmentation given that it is duplicative of existing block grant activities. LEAs can use existing Learning Recovery Emergency Block Grant funds for these activities, and could choose to partner with the California Mathematics Project to develop and administer professional development activities. Moreover, existing Proposition 98 funding is not sufficient to cover the state's existing commitments. If the Legislature wanted to require LEAs to implement a specific professional development model, it could instead require a portion of existing block grant funds be used for this purpose.

TEACHER CREDENTIALING AND AUTHORIZATION PROCESS

Background

Commission on Teacher Credentialing (CTC) Issues Teaching Credentials, Permits, and Authorizations to Qualified Individuals. Individuals must meet a number of requirements to receive a teaching credential, permit, or authorization. These requirements vary but can include obtaining a bachelor's degree; completing a teacher preparation program; demonstrating subject matter competency; and demonstrating basic skills proficiency in reading, writing, and mathematics. In general, individuals must demonstrate basic skills proficiency and subject matter competency prior to receiving their teaching credential. Individuals can demonstrate basic skills proficiency and subject matter competency by passing certain state-approved exams. Additionally, in 2021, the state also allowed teacher candidates to meet both requirements through previously completed college coursework. In the case of the subject matter competency requirement, teacher preparation programs determine whether previous coursework satisfies the requirement by reviewing transcripts and verifying if listed coursework aligns with certain subject matter domains.

Several Options for Teaching Arts in Elementary Schools. Individuals who are interested in teaching arts in an elementary school setting have various options for obtaining the necessary credentials. For example, individuals may obtain a single subject teaching credential in Art, Music, Dance, or Theater. In addition, teachers with an existing multiple subject credential may obtain a supplementary authorization in Art, Music, Dance, or Theater. To obtain the authorization, individuals must complete 20 units of college coursework in the specific subject area.

CTC Authorizes Individuals to Teach Arts, Media, and Entertainment in a Career Technical Education (CTE) Setting. The CTE classroom setting is structured to provide technical, trade, and vocational lessons primarily to students in grades 7 through 12 and in classes organized primarily for adults. The CTE credential in designated subjects is issued to individuals who are deemed qualified to teach in 1 of 15 subject areas, including Arts, Media, and Entertainment. This credential requires individuals to have at least a high school diploma and three years of work experience in one of the designated areas, or one year of work experience plus 48 units of college coursework in the same area.

Voters Recently Enacted Funding for Arts Education. State law requires schools to provide instruction in visual and performing arts (including music) to all students in grades 1 through 6. Additionally, voters recently approved Proposition 28 (2022), which requires the state to provide funding specifically for arts education. As required by the measure, the state currently provides over $900 million for Proposition 28 activities, based on a statutory formula. Funds are distributed to schools based on overall enrollment and the share of their students who are low income or EL. These funds are primarily to be used for hiring new staff to expand arts education programs.

Governor's Proposals

The Governor proposes trailer bill legislation to make the following changes to the teacher credentialing and authorization process:

- ***Creates Elementary Arts and Music Education Authorization.*** The new authorization would allow individuals to teach art, music, dance, or theater in preschool through grade 6. To be eligible for this authorization, an individual must (1) have a clear designated subjects CTE credential in Arts, Media, and Entertainment, and (2) complete 24 units of coursework that are intended to help the individual prepare for teaching in an elementary or early childhood setting. LEAs would be required to provide two years of mentorship and support for teachers with this new authorization. The mentorship must be provided by a teacher with a clear single or multiple subject credential.
- ***Exempts Individuals With a Bachelor's Degree From Basic Skills Proficiency Requirement.*** Given that teaching credentials that require basic skills proficiency also require individuals to obtain a bachelor's degree, this proposed change would effectively eliminate the basic skills proficiency requirement in teacher credentialing programs.
- ***Makes Changes Intended to Streamline Transcript Review for Determining Subject Matter Competency.*** Specifically, the Governor's proposed trailer bill language would require CTC to create broad subject matter domains that can be used when reviewing transcripts and determining whether previous coursework satisfies the subject matter competency requirement.

Assessment

Demand for Arts and Music Teachers Likely Increased in Recent Years. Given the passage of Proposition 28, schools likely will be expanding arts and music programs over the next few years. However, some schools may be struggling to find certificated arts and music education teachers. Although it is common for schools to have difficulty hiring educators in certain subject areas initially after program expansion, over time, the supply of teachers may increase to meet this demand.

Unclear if Proposed Elementary Arts and Music Authorization Will Effectively Prepare Individuals to Teach in an Elementary School Setting. Credentialing programs for elementary school educators generally focus on teaching individuals how to design, implement, and facilitate learning according to the cognitive, emotional, and linguistic levels of young children. Existing CTE authorizations do not require the completion of coursework on developmentally appropriate content and curriculum. The Governor's budget proposal, however, aims to ensure that individuals with an elementary arts and music education authorization are prepared to teach young children in elementary schools by requiring (1) two years of mentorship from a credentialed teacher, and (2) completion of 24 units of coursework related to early childhood development and the elementary school context. However, it is unclear if all schools have the capacity to provide two years of mentorship and if the required coursework for this new authorization would provide the same level of preparation as current elementary school credentialing requirements in arts and music.

Basic Skills Proficiency Exams Can Be Unnecessary Barrier for Otherwise Effective Teacher Candidates. The majority of teacher candidates choose to satisfy the basic skills proficiency requirement through the state-approved exam. Historically, about 30 percent of candidates did not pass the exam the first time. This is more pronounced among teacher candidates of color, with more than half of Black and Latino/a candidates not passing the basic skills proficiency exam the first time. During the COVID-19 pandemic, the state temporarily extended the amount of time teacher candidates had to complete the basic skills requirements due to test center closures. This effectively meant that candidates could begin teaching without completing the basic skills requirement. Upon the expiration of this COVID-19 flexibility in June 2022, candidates were required to complete the basic skills requirement in order to continue teaching. Based on anecdotal information from school administrators, it is our understanding many teacher candidates who proved to be effective instructors during the COVID-19 flexibility period have been struggling to pass the basic skills proficiency exam. Additionally, new teacher candidates continue to struggle to pass the basic skills proficiency exam the first time. As a result, some schools have expressed that the basic skills requirement has created an unnecessary barrier to hiring and retaining otherwise effective teachers.

Current Transcript Review Process Reported to Be Burdensome and Complex. In a recent report, CTC found that the current transcript review process is time-consuming and complex for teacher preparation programs, in part, because of the subject matter domains. Specifically, teacher preparation programs currently determine whether coursework satisfies the subject matter competency requirement by comparing course content to subject matter domains. However, these subject matter domains were originally created to inform the development of questions in the state-approved exams used to measure subject matter knowledge. Teacher preparation programs have reported that while the domains are effective in developing exam questions, they are too narrow, too specific, and overall a less effective reference point when determining whether coursework satisfies the subject matter competency requirement. Our understanding is that the Governor's proposed trailer bill language intends to address this problem by allowing CTC to create broader subject matter domains that shall be specifically used for the transcript review process.

Recommendations

Consider Benefits and Trade-Offs of Elementary Arts and Music Education Authorization. The proposed elementary arts and music education authorization may make it easier for schools to hire arts and music teachers. However, the Legislature may want to weigh this benefit against the likelihood that teachers with the new authorization may not be as prepared to teach in an elementary and early childhood setting as teachers with a single subject credential in arts or music. Additionally, the Legislature may want to consider whether the Governor's proposal can be amended to address any potential trade-offs, or if the administration should present a revised proposal next year that addresses these issues.

Approve Changes to Basic Skills and Subject Matter Competency Requirement and Continue to Investigate Other Possible Improvements. Given how burdensome the basic skills proficiency exam and current subject matter transcript review process is for teacher candidates, we recommend the Legislature approve the relevant changes included in the Governor's proposed trailer bill legislation. The Legislature may also want to consider further identifying other barriers that exist within the current teacher credentialing and authorization process. For example, CTC identified that the current subject matter transcript review process could be further improved by (1) creating a single, statewide master list of courses across all regionally accredited institutions that meet specific subject matter domains, and (2) providing ongoing outreach to increase the awareness among candidates that the subject matter competency requirement could be satisfied through coursework. (We would note that, due to the budget deficit, improvements to the credentialing process that require additional resources cannot be supported without making reductions in other areas at this time. The Legislature could consider adopting these improvements in the future when budget conditions improve.)

ATTENDANCE RECOVERY AND INSTRUCTIONAL CONTINUITY

In this section, we provide background on the various ways LEAs can provide instruction and generate funding for students. We then describe and assess the Governor's proposal to allow LEAs to operate attendance recovery programs for students who are absent throughout the school year and instructional continuity programs in cases where students cannot attend school on a short-term basis. Given the current Proposition 98 shortfall, the state likely cannot support costs associated with these new programs. If the Legislature is interested in implementing these programs, we recommend the Legislature delay them for at least one year. We also identify several implementation issues if the Legislature is interested in adopting the proposals.

Background

Most K-12 Funding Is Allocated Through LCFF. LCFF is the primary source of funding for school districts and charter schools. The formula provides a base amount for each student in different grade spans, plus additional funding for low-income students and Els. Schools pay for most of their general operating expenses (including employee salaries and benefits, supplies, and student services) using these funds. For 2023-24, the state is estimated to spend about $80 billion on LCFF—an average of about $14,750 per student for more than 5.4 million students attending school districts and charter schools statewide. (COEs have a somewhat more complex LCFF formula, but also receive a portion of their funding based on the number of students they serve and their student demographic characteristics.)

LCFF Is Based on Average Daily Attendance (ADA). The state allocates LCFF to LEAs based on their ADA—the average number of students in class each day throughout the school year. (COE LCFF is determined partially by ADA, as well as several other factors, including the number of school districts and students that are enrolled within the county in which they operate.) For funding purposes, the state credits school districts and COEs with their ADA in the current year, prior year, or rolling average of three prior years, whichever is higher. Charter schools, by contrast, are funded according to their attendance in the current year only. Most school districts are funded on their attendance from the average of their three prior years, due in part to ongoing declines in enrollment statewide. In addition to experiencing reductions in enrollment, schools also experienced steep declines in attendance rates during the COVID-19 pandemic. Although statewide attendance rates have been improving, they still have not returned to pre-pandemic levels.

State Sets Minimum Instructional Day and Time Requirements. The state sets a number of requirements related to the amount of instruction students must receive during the school year. School districts and charter schools are required to provide 180 days and 175 days of instruction, respectively. (COEs are not subject to instructional day requirements.) Both school districts and charter schools are subject to the same number of required minutes of instruction for the school year. These requirements vary by grade level and range from 36,000 minutes (for kindergarten) to 64,800 minutes (for grades 9-12). Additionally, school districts are required to offer a minimum amount of instruction time per day. This minimum requirement also varies by grade span, from 180 minutes (for kindergarten) to 240 minutes (for grades 9-12). Charter schools do not have any required amount of daily instruction, while COEs have minimum daily minute requirements that vary based on instructional setting.

Regular Instruction Can Be Provided Based on In-Person Attendance or Through Independent Study. LEAs most commonly receive funding based on student attendance in an in-person instructional program, where students are under the direct supervision of a certificated teacher. In addition, they can receive funding to operate programs with a more flexible structure through independent study. Rather than generating funding solely based on in-person attendance, independent study programs also generate funding based on remote instruction and the work completed by students. Independent study programs range from fully online virtual academies to hybrid programs where instruction can be delivered on-site and off-site. Instruction could involve real-time interaction between students (synchronous) or could be accessed at students' own pace (asynchronous). State law allows LEAs to offer these programs, but they are not required to do so. (Due to the COVID-19 pandemic, school districts were required to offer independent study in 2021-22.) Under current law, charter schools that provide more than 20 percent of their instruction through independent study are considered "nonclassroom-based."

Independent Study Programs Require Written Agreements With Families. To operate an independent study program, an LEA's local governing board must adopt a written policy that adheres to the independent study rules and regulations set by CDE. A student's parent or guardian must sign a written agreement before the student can enroll in the program. This agreement must include specific information regarding the student's instructional program, such as the duration of the agreement, learning objectives, expectations around a student's coursework and assignments, and the supports that the program will provide the student.

State Established New Independent Study Requirements in 2021-22. Most notably, independent study programs must:

- Offer synchronous instruction to independent study students throughout the school year, with frequency varying by grade level.
- Establish procedures for reengaging with students who do not meet certain requirements, such as those who have completed less than 60 percent of their assigned work in one week, participated in less than 60 percent of scheduled synchronous instruction in one month, or violated their independent study agreement.
- Have a plan for transitioning students back to in-person instruction within five days, if requested by the family.

Students are exempt from these requirements if they are participating in independent study due to necessary medical treatments, or other inpatient treatments, under the care of a licensed professional.

"Short-Term" Independent Study Is Exempt From Some Requirements. For a situation in which a student might be absent from school for a period of 3 to 14 days, but wants to remain enrolled in their classroom-based program, LEAs can offer short-term independent study. The requirements for short-term independent study are somewhat more lenient that under traditional independent study. Most notably, LEAs are not required to comply with the recently established requirements to offer synchronous instruction, have tiered reengagement, or have a plan for transitioning students back to regular instruction. LEAs also have more flexibility regarding when parents or guardians must sign the written agreement. Rather than having to sign the agreement prior to a student's enrollment, parents or guardians must sign the agreements within ten days following the commencement of independent study instruction.

School Districts and COEs May Offer "Saturday School" for Students to Make Up Absences. School districts and COEs may offer classes on the weekends for a variety of reasons, including to make up absences during the week. (Since classes are typically offered only on Saturdays, we will refer to this as Saturday school.) Students attending makeup classes can generate attendance-based funding, though they cannot generate funding for more than five days of attendance per week. Any class that is offered through Saturday school must be a class that is offered during the regular school week. School districts and COEs may require truant students to attend Saturday school programs, but participation for other students must be voluntary. Truancy is defined as either missing three days of school with unexcused absences throughout the school year, or being tardy for more than 30 minutes without a valid excuse on three occasions throughout the school year. (The state sets specific circumstances under which absences may be excused—such as for illness or doctor visits—though excused absences do not generate any additional funding.)

State Provides Funding for Expanded Learning Programs. The state has three expanded learning programs that districts use to offer academic and enrichment activities to students before and after school and during intersessions, such as during the winter and summer breaks. Most notably, the state provides $4 billion annually through ELOP for school districts and charter schools to offer programming to students in TK through grade 6. ELOP grants are distributed to all districts and classroom-based charter schools that serve grades TK-6. As a condition of receiving ELOP funds, school districts and charter schools are required to provide at least nine hours of combined in-person instructional time and expanded learning opportunities during the school year and for 30 days during the summer. As part of a program's enrichment activities, ELOP funding can also be used to hire literacy coaches, tutors, counselors, and instructional day teachers and aides.

State Sets Requirements to Receive Emergency Attendance Funding. Existing law establishes a process for LEAs to earn attendance-based funding when they must close schools or experience significant attendance declines due to an emergency (such as a fire, flood, or epidemic). LEAs must certify they have a plan for offering online instruction or independent study to students affected by the emergency within ten days of a closure or major decline in attendance. In addition, LEAs are required to reopen for in-person instruction as soon as possible, unless prohibited under the direction of the local or state health officer.

State Displays Chronic Absenteeism Data on the California School Dashboard. The state publicly displays outcomes on several performance measures on a website known as the California School Dashboard. One of the measures included in the Dashboard is chronic absenteeism, which is defined as students who are absent for more than 10 percent of the time they are enrolled at a school. (A student enrolled at a school district for a full academic year is considered chronically absent if they miss 18 or more days of school.) Performance is shown for each LEA and school, as well as disaggregated by up to 13 student subgroups. For each performance indicator shown by LEA, school, or subgroup, the Dashboard assigns one of five performance levels. School districts and charter schools are identified for differentiated assistance based on the performance of their student subgroups on the measures included in the Dashboard. Under current law, an LEA must receive additional support if they have at least one student group that has received the lowest performance level in two or more priority areas. During the pandemic, chronic absenteeism rates increased significantly statewide. Prior to the pandemic, in 2020-21, Chronic absenteeism rates increased from 14 percent (in 2020-21) to 30 percent (in 2021-22). Although rates somewhat decreased to 25 percent in 2022-23, they still remain almost double the pre-pandemic rates.

Proposal

Authorizes New Attendance Recovery Programs. The administration proposes to allow LEAs to provide instruction outside of the regular school day through "attendance recovery programs." The intent is to allow opportunities for students who were absent to recover lost instructional time, as well as to offset funding losses associated with student absences. Attendance recovery programs would only be made available for students enrolled in classroom-based instructional programs. Nonclassroom-based charter schools would be prohibited from offering attendance recovery programs. In addition to generating additional funding for students that participate in attendance recovery programs, a student's attendance in these programs may be included in a school's chronic absenteeism calculations. By June 30, 2025, trailer legislation would require CDE to develop and maintain a webpage that provides guidance to LEAs in creating and developing attendance recovery programs, in conjunction with state-funded before and after school programs, such as ELOP.

Sets Programmatic Requirements for Attendance Recovery. The proposed attendance recovery programs may operate before and after school, and during intersessions. (School districts and COEs could continue to offer weekend makeup courses through their existing Saturday school programs.) Participating in these programs would be voluntary for all students. In addition, academic recovery programs must meet several requirements:

- Include content that is substantially equivalent to what the student would have received as part of their regular classroom-based instructional program.
- Have instruction provided by certificated staff.
- Have a maximum student-to-teacher of 20:1 for all grades except TK, which would have a maximum of 10:1.

Attendance recovery programs would be exempt from daily minimum minute requirements, and students would generate attendance in 15 minute increments for their participation. A student would be credited with a full day of attendance once they have met the minimum daily minute requirement for their grade level and school type. Students would not be able to generate more than one day of attendance per calendar day through participating in attendance recovery programs. Furthermore, students would not be able to generate more than 15 days of attendance through attendance recovery programs within a school year. The proposal also specifies that for purposes of implementing an attendance recovery program, charter schools would need to comply with minimum daily minute requirements. Beginning in 2024-25, LEAs operating attendance recovery programs would be subjected to regular audits through their annual audit process.

Replaces Short-Term Independent Study With New Instructional Continuity Program. The administration proposes to replace short-term independent study programs with new "instructional continuity" programs. (The Governor's budget does not propose any changes to other independent study program requirements.) Similar to current short-term independent study, instructional continuity programs would provide limited-term options for students enrolled in classroom-based programs. Additionally, students that participate in instructional continuity programs would generate attendance through the time they spend in synchronous or asynchronous instruction, as well as through coursework they complete. Written agreements would be more limited in scope compared to current short-term independent study and may be signed at any point throughout the school year.

Instructional Continuity Limited to 15 Days Per Year, With Exceptions. Students could generate up to 15 days of attendance through participation in instructional continuity programs throughout the school year. The proposed language allows students to participate for longer under certain circumstances. Students could participate for longer if they are undergoing necessary medical treatments, or other inpatient treatments, under the care of a licensed professional. Students could also participate for longer if they are participating due to emergency situations or are experiencing "significant personal difficulties" that impact their ability to attend school, such as homelessness or housing instability, family illness, or bereavement. CDE would be required to develop rules and regulations around instructional continuity programs. Local governing boards would be required to adopt policies that follow the new rules and regulations. Beginning in 2024-25, LEAs that operate instructional continuity programs would be subjected to regular audits through their annual audit process.

Proposes Changes for Emergency Attendance Funding. Trailer legislation proposes to change the requirements for LEAs to receive emergency-related attendance funding in the event of school closures or significant declines in attendance. LEAs must certify they have a plan to offer instruction following an emergency event within five calendar days of the first day of the closure—compared with ten days under current law. Additionally, after June 30, 2025, LEAs would have additional requirements within five days of a closure. Specifically, LEAs would need to demonstrate that they have offered all students either (1) access to instruction (either in-person or remotely) or (2) support to enroll or be temporarily assigned to another LEA.

Provides $6 Million One-Time Proposition 98 to Research Models of Instruction and Student Information Systems. The Governor's budget includes $6 million for two separate grants which would allow CDE, with approval from the State Board of Education, to select a COE to conduct research. Of the total, at least $4 million would be provided to a COE to research best practices for using hybrid and remote models of instruction, as well as to provide guidance, support, and resources to school districts to support their instructional continuity programs. The selected COE must make their research, guidance, support, and resources available to the public through a website that links to CDE's website, as well as through widely available and free trainings and convenings for LEAs and teachers. Up to $2 million would be provided to a COE to research local student information systems to identify opportunities for more nuanced tracking of student absence data, with a particular focus on absences due to emergencies. The selected COE must provide recommendations by January 1, 2026 that would change the current absenteeism tracking system to allow for better tracking of the reasons for absences, including by student subgroup, and allow for calculating an adjusted chronic absenteeism rate that excludes absences due to emergencies.

LAO Comments

Proposals Could Potentially Address Key Issues for Schools and Students. The proposed attendance recovery and instructional continuity programs could be effective ways to address key issues currently facing schools. Attendance recovery programs could help students mitigate learning loss due to absences. They could also help LEAs recover lost funding associated with increased rates of student absences while incentivizing additional instruction. The added flexibility provided to students through instructional continuity programs, relative to current short-term independent study, could potentially help students have an easier transition in and out of their classroom-based instructional program as issues arise throughout the school year, while also making the process less administratively burdensome for school districts.

State Likely Cannot Support Costs Associated With New Programs. The Governor's budget does not include any funding associated with the cost of attendance recovery or instructional continuity programs. Given most school districts are experiencing declining enrollment and are being funded based on the rolling average of three prior years, they likely would not generate significant additional funding in the first year of implementation. Additionally, as we discuss below, it may take time for districts to implement their new programs. Charter schools, however, would see immediate increases in funding given they are funded based on their attendance in the current year. Over the longer run, the programs likely would increase LCFF costs more substantially. Although the estimated effects of the proposals are unknown, even a 0.1 percent increase in statewide ADA could result in LCFF costs of roughly $100 million statewide. (Of the two proposals, attendance recovery programs likely would have higher costs in the long run. Since instructional continuity programs would be replacing short-term independent study, they are less likely to result in significant additional costs.) If the Legislature is interested in implementing these programs, we recommend the Legislature delay them for at least one year. In future years, the Legislature may want to consider whether it can cover the associated costs of this proposal within its ongoing Proposition 98 funding levels. Below, we describe other specific issues the Legislature may want to consider if it does adopt this proposal, or if it is interested in adopting the proposal in future years.

Implementing Changes Immediately Would Be Logistically Challenging. Under the Governor's proposal, LEAs could implement attendance recovery and instructional continuity programs beginning in 2024-25. Even if the state can afford to pay for these new programs immediately, the Legislature may want to delay the effective date to give the state and LEAs more time to carefully implement these programs. For attendance recovery, LEAs would need time to integrate attendance recovery into their existing programs. Trailer legislation directs CDE to develop guidance on attendance recovery programs by June 30, 2025. Delaying implementation would give LEAs the opportunity to incorporate this guidance into their initial plans. Regarding instructional continuity, LEAs cannot generate funding through the program unless their governing board adopts a written policy in line with rules and regulations set forth by CDE. Given the typical time lines for adopting regulations, final regulations may not be available in time for local governing boards to develop and adopt written policies in 2024-25. In the meantime, under the proposed language, LEAs would not be able to offer short-term independent study. Delaying implementation would allow for more time for the state and LEAs to more deliberately work through the details and would ensure that LEAs would not generate funding from these programs until they comply with rules and regulations set by CDE.

Attendance Recovery Language Raises Several Implementation Issues. Many of these issues are related to how this proposal interacts with existing statute related to calculating attendance for funding purposes. Prior to adopting this proposal, the Legislature will want to ensure it understands how the proposed changes could affect attendance, which would, in turn, affect LCFF costs.

- ***Proposal Creates Two Attendance Recovery Programs With Different Requirements.*** Under the Governor's proposal, new attendance recovery programs would operate before or after school and during intersessions, while the existing Saturday school program would operate on weekends. This would result in two programs with different requirements. Currently, Saturday school makeup classes do not have any cap on the number of days of attendance a student can generate and do not have comparable requirements around student-to-teacher ratios. To provide a more consistent set of standards, the Legislature may want to align current Saturday school requirements with the proposed attendance recovery program requirements, or consolidate both into one program.
- ***Student Participation Is Not Limited by Their Absences.*** The proposed trailer legislation specifies that students cannot generate more than 15 days of attendance through attendance recovery. The language, however, does not require that the amount of attendance generated be less than the student's absences. This means that a student could potentially generate attendance for more than 180 days in the year. (For example, a student who attends school for 170 days and participates in 15 days' worth of attendance recovery could generate 185 days' worth of attendance.) We recommend the Legislature limit the amount a student can generate to no more than the amount of absences they have within the school year.
- ***Overlap Between Attendance Recovery and Other Programs.*** Attendance recovery programs also could be integrated with other existing programs that occur after school and in intersessions, such as high school credit recovery. Under the existing proposal, LEAs likely could generate attendance recovery funding for students participating in existing credit recovery programs. This could result in significant statewide costs without necessarily higher levels of service.
- ***Expectations Around Instruction.*** The Governor's proposal provides significant discretion to LEAs in deciding the type of instruction that will be provided in attendance recovery programs. The Legislature may want to consider setting more specific expectations for instruction provided in these programs. For example, the Legislature could direct LEAs to focus their before and after school programs for high school students on helping them keep up with their existing coursework, while intersession instruction could prioritize credit recovery. In deciding on the level of specificity, however, the Legislature will want to weigh the benefits of these requirements with the loss of flexibility that may reduce LEA participation in the program.
- ***Lack of Clarity Regarding Implementation for Charter Schools.*** The proposed trailer legislation specifies that, for the purposes of calculating ADA generated through attendance recovery programs, the minimum instructional day requirements apply to all LEAs, including charter schools. However, it is unclear how this would be implemented. For example, the proposed language does not specify whether charter schools would need to comply with the daily minimum minutes of school districts or programs operated by COEs. The Legislature may want to add more specificity to the language to ensure expectations for charters schools are clear.

Instructional Continuity Exception Language Is Too Broad. Although instructional continuity is intended to be used for short periods of time, the language provides broad exceptions with no limit on how long instructional continuity could be used in these cases. The proposed language provides a broad definition of what it means for a student to be facing significant personal difficulties that make them unable to attend school. (We have no concerns with the other two proposed exceptions, for students dealing with an emergency or undergoing medical or other inpatient treatments.) Moreover, students exempt from the 15 day cap would have no limit on the amount of time they could be enrolled in an instructional continuity program. This creates an opportunity for students to be enrolled in instructional continuity for up to a full year. Considering the proposal also does not require written agreements be signed until the end of the school year, students could be enrolled in an instructional continuity program for a long period of time without having understood expectations of the program, and without having known key details required to be included in the written agreement (such as that the program is voluntary). We recommend the Legislature set narrower exemptions to the 15 day cap. The Legislature may also want to set more specific rules for students who remain enrolled beyond the 15 day cap. For example, the Legislature could set a maximum cap for all students, or it could require that a written agreement be signed by the student and parent or guardian prior to enrolling in instructional continuity more than 15 days. This would ensure that students with longer-term needs are enrolled in independent study, where LEAs are required to implement tiered reengagement strategies to better support students who are not completing their coursework.

Consider Feasibility of Changes to Emergency Planning. The Legislature may want to consider whether requiring LEAs to offer instruction to all students within five calendar days of an emergency (rather than ten days) is feasible under emergency circumstances. Providing instruction as soon as possible can mitigate possible learning loss and could benefit students socioemotionally by giving them the opportunity to interact with familiar peers and adults in times of possible distress. In cases of major emergencies, however, offering instruction within five calendar days may be particularly challenging.

Recommend Rejecting $6 Million Grants. Due to the Proposition 98 shortfall, we recommend rejecting the one-time funding for COEs to conduct research. Although the specific activities proposed to be funded could be beneficial, the state currently cannot support its existing Proposition 98 commitments. The Legislature could consider providing funding for this purpose in the future when more funding is available.

EDUCATION TECHNOLOGY

In this section, we describe and assess the Governor's budget proposals related to the California College Guidance Initiative (CCGI) and K-12 High Speed Network (HSN). Overall, we recommend the Legislature maximize reserves and one-time carryover funds to offset CCGI and HSN operational costs. Additionally, given the Proposition 98 shortage, we recommend the Legislature reject any proposals that increase ongoing cost pressures.

BACKGROUND

CCGI

CCGI Is a College Planning and Advising Tool. CCGI offers access to college planning, financial aid, and career exploration tools to students from grades 6 to 12 through its online platform CaliforniaColleges.edu. CCGI also partners with school districts to streamline the college application process through verified electronic transcripts. Partner districts can upload verified academic transcript data onto the platform and into students' accounts. When students from these partner districts apply to a

California Community College (CCC) or California State University (CSU), relevant high school data is automatically shared. The college or university, in turn, can use the data to inform decisions about admissions and course placement. (CCGI is currently working with the University of California (UC) Office of the President to provide the same transcript functionality to UC applicants.) As of February 2024, nearly 240 of 417 eligible school districts partner with CCGI.

CCGI Offers Two Types of Student Accounts. Students in districts that partner with CCGI have access to transcript-informed accounts in the CaliforniaColleges.edu platform, which allow them to use all available tools and features, including the ability to import verified transcript data into CSU and CCC applications. Students in districts that are not partnered with CCGI can choose to create basic accounts to access non-transcript-informed resources, such as lessons in financial aid process, high school coursework planning, and career planning. CCGI is in the process of scaling up the ability to automatically generate universal basic accounts for all students in grades 6 to 12 in districts that are not CCGI partners.

CCGI Is Funded Through Mix of Proposition 98, Fee Revenue, and Philanthropy. In 2023-24, the state provided CCGI $18.4 million ongoing Proposition 98 for operational costs. The state currently funds CCGI as part of CDE's budget, with Riverside COE and the nonprofit Foundation for CCC acting as intermediaries. CCGI generates some additional funding by collecting fees from participating districts and charter schools. Fee revenue for 2023-24 is projected to be slightly less than $700,000. CCGI also receives funding from private philanthropy and institutional partners, which is projected to be less than $1 million in 2023-24.

CCGI Carried Forward $3.9 Million Unspent Proposition 98 into 2023-24. The 2022-23 budget increased CCGI funding by $9.2 million Proposition 98 (bringing total Proposition 98 funding to $16.8 million). These funds were meant to cover the costs of technological development projects, new staff, and new districts joining the platform. By the end of 2022-23, $3.9 million of Proposition 98 funds went unspent due to hiring and project delays. These unspent funds carried forward into 2023-24 on a one-time basis.

HSN

State Created HSN to Primarily Connect COEs to High-Speed Broadband Internet. In the early 2000s, the state decided to link COEs to a high speed network, or "backbone," servicing mostly educational institutions. Years earlier, UC and private research universities had formed a joint nonprofit organization called the Corporation for Education Network Initiatives in California to build and maintain this backbone. Beginning in the early 2000s, the state decided to pay for internet connections from the backbone to all COEs. The state named the connections among the 58 COEs the "K-12 High Speed Network," or HSN. School district offices and schools then were encouraged to connect to the HSN via their COE network "hubs." (CSU, CCC, and local libraries also are joined to the backbone.) In 2004, Imperial COE was selected as the grantee tasked with coordinating HSN-related activities. A decade later, this included the administration of the Broadband Infrastructure Improvement Grant (BIIG) program. In 2014-15, the state created the BIIG program to help schools administer online tests by increasing their internet speeds. Between 2014-15 and 2015-16, the state provided a total of $77 million Proposition 98 to support the BIIG program. Imperial COE, in its role as the HSN grantee, was tasked with distributing funds to schools and supporting network connectivity.

State Previously Zeroed Out Proposition 98 Appropriation Due to Large Reserve Levels. The HSN grantee generally carries a reserve balance, which consists of delayed reimbursements and undesignated revenues. In 2015-16, the state eliminated the HSN grantee's Proposition 98 appropriation in recognition of large reserve levels. Specifically, HSN reserve levels increased from $2.8 million in 2006-07 to nearly $15 million in 2014-15. This required the HSN grantee to spend down some of its reserve, reaching $5.2 million by the end of 2022-23. Reserve levels at the end of 2023-24 are projected to be $4.5 million, which will carry forward into 2024-25.

In Recent Years, HSN Grantee Received Revenue Primarily From the BIIG Program and Two Internet Subsidy Programs. Since the suspension of Proposition 98 funds in 2015-16, the HSN grantee began to use unspent BIIG funds to cover operational expenses, including equipment maintenance, staffing, and new internet connectivity and upgrade projects. Additionally, the HSN grantee draws down funds from E-Rate and the California Teleconnect Fund (CTF). E-Rate is a federal telecommunications subsidy that provides reimbursements of up to 90 percent for Internet service. The CTF is a state special fund that provides reimbursements of 50 percent for internet service, after all E-Rate discounts are applied. Both subsidies are funded by telecommunication user surcharges. The HSN grantee typically receives E-Rate subsidies on a lagged basis (usually several months or, in some cases, years after services were provided).

State Provided $3.8 Million Ongoing Proposition 98 in 2023-24 to Backfill BIIG Funds. Since 2014-15, the HSN grantee has steadily spent down BIIG funds, reaching a remaining balance of nearly $8 million by the end of 2022-23. As a part of the 2023-24 budget, the HSN grantee projected that all remaining BIIG funds would be spent by the end of June 2024. As a result, the state provided $3.8 million ongoing Proposition 98 to backfill the ramp down of BIIG funds and maintain budgeted revenues at around $18 million in 2023-24.

Actual 2022-23 Revenues and Expenditures Estimated to Be $3 Million Lower Than Budgeted Levels. The state budgeted around $19 million in total HSN revenues and expenditures for 2022-23. However, based on the most recent estimate of 2022-23 actuals, both revenues and expenditures are expected to come in $3 million lower than budgeted levels. (We are working with the administration to better understand the reasons behind the lower-than-expected revenues and expenditures.)

GOVERNOR'S PROPOSAL

Provides $5.1 Million in Additional Proposition 98 to Support CCGI Expansion. This funding is intended to cover costs associated with providing universal accounts to all students in grades 6 to 12, expanding the number of partner school districts, enhancing the functionality of CaliforniaColleges.edu, and further supporting communications with other state agencies and offices to promote use of CaliforniaColleges.edu. The proposed augmentation would bring total ongoing Proposition 98 funding levels to $23.4 million (a 24 percent increase relative to 2023-24). The 2024-25 budgeted authority does not include any expected one-time Proposition 98 carry over funds.

Adds Requirements Intended to Encourage Additional Utilization of CaliforniaCollege.edu and Streamlines Data Transfer to CCGI. Current law requires LEAs provide students entering grade 12 with information about the college financial aid application process. Additionally, LEAs are required to ensure high school seniors apply for college financial aid unless the student has opted out of the requirement. The Governor's budget proposes trailer bill language that would require LEAs to direct students to complete financial aid lessons and submit financial aid applications through the CaliforniaColleges.edu platform. The Governor's proposed trailer bill language also requires all LEAs enter into a data sharing agreement with CCGI to support the implementation of universal basic accounts. In addition, the Governor's proposed trailer bill language requires community colleges and student information system contractors to share additional student data for purposes of improving the functionality of CaliforniaColleges.edu.

Provides $3 Million Proposition 98 to Partially Backfill Temporary Funds for HSN. The Governor's budget projects about a $6 million decrease in HSN revenues. The Governor's budget provides an additional $3 million Proposition 98 on an ongoing basis to partially backfill the projected loss in revenue. In addition, the Governor's budget assumes the HSN grantee will draw down $3 million from expected $4.5 million reserves to cover the remaining amount of the projected revenue decrease. As a result of these proposed revenue actions and assumptions, the Governor's budget provides $18 million total expenditure authority in 2024-25, which is relatively equal to estimated expenditures in 2023-24.

ASSESSMENT

Proposed CCGI-Related Trailer Bill Language May Increase District Participation in CCGI. In a recent report, CCGI noted that small districts generally do not have the sufficient information technology staff to transfer the necessary student data to CCGI in order to support transcript-informed accounts for students. The Governor's budget proposes to reduce this burden by requiring student information system contractors automatically transfer this information to CCGI instead. This could be an effective way to increase participation of small school districts. The proposal that requires LEAs to direct students to use financial aid resources from CaliforniaColleges.edu seems reasonable, as it would take advantage of existing resources that are free to students. These proposed changes, however, may increase workload for school districts. (We are in the process of learning more about the possible workload impacts of the Governor's proposed trailer bill language.)

HSN Reserve Levels Projected to be $1.5 Million by the End of 2024-25. The Governor's budget assumes the HSN grantee will end 2023-24 with a $4.5 million reserve that will carry forward into 2024-25. This reserve consists of $3.3 million in delayed E-Rate subsidy reimbursements and $1.2 million of undesignated revenues. The Governor's budget assumes the HSN grantee will draw down $3 million in reserves to keep HSN revenue and expenditure levels flat in 2024-25. As a result, total reserve levels are projected to be $1.5 million by the end of 2024-25.

HSN Grantee Not Required to Maintain Reserves. The HSN grantee chooses to maintain reserves to support any unanticipated expenses, such as fully covering budgeted expenditure levels in cases where actual revenue levels come in lower than expected. For example, in 2020-21, total HSN expenditures exceeded actual revenues by about $500,000, which the HSN grantee covered with reserves. In general, it is uncommon to ask grantees to maintain reserves on the state's behalf. An alternative approach would be for the Legislature to establish a certain reserve threshold and reevaluate this threshold as a part the annual budget process.

2023-24 HSN and CCGI Expenditures May Be Lower Than Budgeted, Resulting in Additional One-Time Carry Over Funds for 2024-25. In 2022-23, both CCGI and HSN actual expenditure levels were about $3 million below budgeted levels. (The HSN grantee is still in the process of finalizing the audit of 2022-23 expenditures.) Expenditures came in lower, in part, due to delays in hiring new staff and delays in technology projects. Based on most recent 2023-24 expenditure data, we believe that HSN and CCGI expenditures may come in lower than budgeted by a similar amount as 2022-23. These unspent funds would carry forward into 2024-25 and would further offset operation costs.

RECOMMENDATIONS

Consider Workload Costs Associated With CCGI-Related Trailer Bill Language. While the proposed changes may improve the reach of CaliforniaColleges.edu across eligible districts, the Legislature may want to consider if these changes would require additional resources to implement. To the extent these changes require additional resources, the Legislature could consider delaying the implementation date until budget conditions improve.

Reject Proposed CCGI Augmentations. Due to the Proposition 98 shortfall, the state cannot support additional spending without making reductions to existing commitments. As a result, we recommend the Legislature reject the proposed increase to Proposition 98 funding levels in CCGI. Given that this recommended action would delay CCGI expansion activities, the Legislature could consider amending statute to delay the implementation date of impacted activities.

Maximize Use of HSN Reserves to Cover Baseline Operational Costs. The Governor's budget assumes the HSN grantee will draw down $3 million in reserves to cover 2024-25 operation costs, leaving an estimated reserve balance of $1.5 million. The Legislature could consider the benefits and trade-offs of increasing the reserve draw down in order to offset Proposition 98 costs. While requiring a greater draw down of reserves would reduce state costs, there is a risk of overdrawing from the HSN reserve if the actual collections of delayed E-Rate subsidies come in lower than expected.

Reassess HSN and CCGI Budgets in May. Similar to 2022-23, total HSN and CCGI expenditures in 2023-24 may come in lower than budgeted levels by a couple of millions of dollars. These unspent funds would carry over into 2024-25. As a part of the spring hearing process, we recommend the Legislature request an estimate of unspent funds in 2023-24 and adjust 2024-25 Proposition 98 levels accordingly. Additionally, given the Proposition 98 shortfall may be greater than initial Governor's budget estimates, we believe the Legislature may need to reconsider and weigh existing funding commitments across all Proposition 98 activities, including HSN and CCGI.

K-12 EDUCATION UNIT

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LAO PUBLICATIONS

This report was reviewed by Edgar Cabral. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.

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