LAO
LEGISLATIVE ANALYST'S OFFICE

March 8, 2018

Education Mandates

LEGISLATIVE ANALYST'S OFFICE

Presented to:
Senate Budget and Fiscal Review Subcommittee No. 1
On Education
Hon. Anthony Portantino, Chair

LEGISLATIVE ANALYST'S OFFICE

Background on Education Mandates

☑ Many Active Education Mandates

- Proposition 4 (1979) requires the state to reimburse local education agencies (LEAs) for mandated activities. The Commission on State Mandates has approved 44 active K-12 mandates and 15 active community college mandates.
- LEAs may submit reimbursement claims for costs incurred when performing mandated activities.
- In lieu of submitting claims, LEAs may participate in mandate block grants (one for K-12 entities and another for community colleges). The block grants provide upfront, per-student funding to cover the cost of mandated activities.

☑ Mandate Backlog Shrinking but Still Almost $1 Billion in Unpaid Claims

- The state deferred mandate payments from 2003-04 through 2009-10, creating a large backlog of unpaid claims.
- Since 2010-11, the state has provided $6.8 billion to reduce the backlog ($6 billion for schools and $800 million for community colleges).
- As of the end of 2017-18, we estimate the state has $987 million in unpaid claims ($871 million for schools and $116 million for community colleges).

LAO
LEGISLATIVE ANALYST'S OFFICE

Background on Education Mandates
(Continued)

Many LEAs Have No Outstanding Claims

- 68 percent of school districts, 31 percent of county offices of education, and 88 percent of community colleges have no unpaid claims.
- Of those with remaining claims, the per-student claims vary dramatically.

Distribution of Outstanding Mandate Claims
Claims Per Student

	Share With Claims	Minimum Claim	Median Claim	Maximum Claim
School districts	32%	$2	$434	$15,051
County offices of education	69	44	2,874	33,602
Community college districts	12	8	1,135	3,663

Notes: Claims per student reflects estimated claims after applying budgeted mandate backlog payments through 2017-18. Local education agencies with no outstanding balances have been omitted.

Schools districts and county offices of education with outstanding claims serve one-third of students in the state while community college districts with outstanding claims serve 10 percent of students.

LAO LEGISLATIVE ANALYST'S OFFICE

Background on Medi-Cal Billing Agreement

☑ LEAs Are Eligible for Certain Medi-Cal Reimbursements

- LEAs are eligible to receive a 50 percent federal reimbursement for the cost of administrative activities they perform in support of the Medi-Cal program.
- The California Department of Health Care Services (DHCS) administers these reimbursements.

☑ Federal Audit Found Inappropriate Local Billing Practices

- A 2013 federal government audit concluded that California LEAs were submitting inflated claims.
- The federal government suspended reimbursements until it could reach an agreement with the DHCS to address the concerns identified in the audit.

☑ Statewide Agreement Reached in 2014

- As part of the agreement, DHCS negotiated a new reimbursement methodology with the federal government and implemented the new methodology for claims submitted on or after January 1, 2015.
- The agreement also required the state to prorate previously approved claims from 2009-10 through December 31, 2014. Differences between LEAs' original claims and the adjusted amounts were to be repaid to the federal government. The administration estimates the associated statewide obligation is $222 million.
- The letter from the federal government finalizing the agreement indicates that "there is no further room for negotiation."

LAO
LEGISLATIVE ANALYST'S OFFICE

Governor's Proposals

☑ **Provides $1.8 Billion in One-Time Discretionary Grants**

- Governor proposes to distribute funding on a uniform per-student basis (about $300 per average daily attendance).
- Governor proposes to reduce a district's outstanding mandate claims by its grant allocation (after accounting for any Medi-Cal billing obligation, as described below).

☑ **Reduces One-Time Grants to Pay for Medi-Cal Billing Agreement**

- Deducts each LEA's individual Medi-Cal obligation from its one-time discretionary grant funding.
- DHCS is in the midst of calculating each LEA's individual obligation. The department expects to finalize its calculation of obligations for 2009-10 and 2010-11 by May 2018, with obligations pertaining to 2011-12 through 2014-15 finalized in 2018-19.

☑ **Provides Cost-of-Living Adjustment (COLA) to Mandate Block Grants**

- Provides a 2.51 percent COLA to K-12 and community colleges mandate block grants, increasing them by roughly $6 million and $800,000, respectively.
- Does not add any mandates to the block grants or suspend any active mandates.

LAO
LEGISLATIVE ANALYST'S OFFICE

Assessment

☑ **Approach Ineffective at Eliminating Backlog**

- The Governor's $1.8 billion proposal would reduce the mandates backlog by only $287 million.
- Eliminating the backlog using a uniform per-student funding rate would cost almost $200 billion, with the state paying all LEAs a per-student rate equivalent to the maximum existing claim per student ($33,602).

☑ **Governor's Medi-Cal Repayment Proposal Seems Consistent With Statewide Agreement**

- Making the required payment would allow the state to close the books on prior-year claims and ensure LEAs remain eligible to participate in the Medi-Cal reimbursement program.
- Deducting obligations from the one-time discretionary grants seems more administratively efficient than requiring DHCS to bill each LEA individually.

☑ **Providing COLA to Mandate Block Grants Helps Retain Their Value**

- The cost of some mandated activities could increase in 2018-19. Providing a COLA to the mandate block grants helps LEAs cover these cost increases, which in turn can help keep block grant participation high. The COLA also is consistent with inflationary adjustments made to other programs.

LAO
LEGISLATIVE ANALYST'S OFFICE

Recommendations

☑ **Develop a More Strategic Plan to Retire K-12 Mandates Backlog**

- Identify an amount equal to or in excess of the remaining backlog ($871 million) and distribute funding on a per-student basis. As a condition of receiving funding, require LEAs to write off outstanding mandate backlog claims.

☑ **Adopt the Governor's Medi-Cal Repayment and COLA Proposals**