LAO

The 2022-23 Budget:

Local Control Funding Formula

JANUARY 2022

Summary. In his January budget, the Governor proposes to provide a 5.33 percent cost-of-living adjustment (COLA) to the Local Control Funding Formula (LCFF) and change the formula to soften the impact of declining attendance on school districts. In this post, we provide background on LCFF, describe and assess the Governor's proposals, and provide our recommendations to the Legislature.

BACKGROUND

Most K-12 Funding Is Allocated Through LCFF. The LCFF is the primary source of funding for school districts and charter schools. The formula provides a base amount for each student, plus additional funding for low-income students and English learners. Schools pay for most of their general operating expenses (including employee salaries and benefits, supplies, and student services) using these funds. For 2021-22, the state is estimated to spend more than $66 billion on LCFF—an average of about $11,600 per student for more than 5.7 million students attending school districts and charter schools statewide.

LCFF Is Based on Average Daily Attendance. The state allocates LCFF to school districts and charter schools based on their average daily attendance—the average number of students in class each day throughout school year. For funding purposes, the state credits school districts with their average daily attendance in the current or prior year, whichever is higher. In 2019-20, about 570 school districts (60 percent) had prior-year attendance levels exceeding their current-year levels. These districts received credit for approximately 50,400 students above their current-year attendance levels. Based on 2019-20 per-pupil rates, the associated cost was nearly $530 million. Charter schools, by contrast, are funded according to their attendance in the current year only.

State Makes Several Adjustments to Prior-Year Attendance Calculation. When the state calculates the change in a district's attendance from the prior year to the current year, it makes a number of adjustments. Most notably, it disregards the portion of any attendance reduction attributable to students shifting from schools operated by the district to charter schools sponsored by that same district. In order to make this adjustment, a school district must ascertain the portion of its prior-year attendance attributable to students who attend charter schools in the current year. Districts report this information to the California Department of Education, which updates the attendance calculation accordingly.

State Temporarily Modified Attendance Policies to Address the Pandemic. The emergence of the COVID-19 pandemic in the spring of 2020 resulted in the closure of virtually all schools in the state. For most students, remote learning replaced classroom instruction for some or all of the 2020-21 school year. In response to these changes, the state temporarily modified its approach to attendance. For 2019-20, the state provided that attendance levels would depend only on average daily attendance through February 2020. For 2020-21, the state suspended the collection of attendance data and credited districts and charter schools with their 2019-20 attendance levels. (Growing school districts and classroom-based charter schools could receive credit for additional students under certain conditions.) For 2021-22, the state returned to its previous policy—crediting school districts with the greater of their attendance in 2021-22 or 2020-21. Charter schools will be funded based on 2021-22 attendance levels only (consistent with the previous policy).

State Typically Provides COLA for LCFF. The COLA rate is based on a price index published by the federal government. This index reflects changes in the cost of goods and services purchased by state and local governments across the country. State law provides an automatic COLA for LCFF unless the associated cost would exceed the constitutional funding requirement established by Proposition 98 (1988). In these cases, the law reduces the COLA rate to fit within the available funding. The state also provides COLA for a few other K-12 categorical programs, and it typically aligns the COLA rate for these programs with the LCFF rate.

PROPOSALS

Adjusts LCFF for 5.33 Percent COLA and 2.19 Percent Attendance Decline. The Governor's budget estimates the COLA rate is 5.33 percent in 2022-23 and provides roughly $3.3 billion to cover the associated LCFF costs. The budget also assumes statewide attendance declines 2.19 percent from 2021-22 to 2022-23 and correspondingly adjusts costs down by roughly $1.2 billion. These two adjustments combined result in an additional $2.1 billion in ongoing LCFF costs in 2022-23.

Proposes Adding Three-Year Rolling Average to School District Attendance Calculations. The Governor proposes to create an additional adjustment for school districts with declining attendance, beginning in 2022-23. Under this proposal, districts would be credited with their average daily attendance over the three prior years if it exceeds their current- and prior-year attendance. (For 2022-23, attendance would be based on the average of 2019-20, 2020-21, and 2021-22.) The administration estimates that the proposal would increase LCFF costs by roughly $1.2 billion in 2022-23—essentially offsetting the attendance-related reduction that would occur under current law. The Governor does not propose any specific changes for charter schools, but indicates the administration will explore options for extending a declining attendance adjustment to charter schools in the future.

ASSESSMENT

In this section, we provide our assessment of the Governor's two proposals related to LCFF.

Declining Attendance Policy

Proposal Addresses Short-Term Funding Drops Attributable to the Pandemic. Our discussions with district budget experts suggest that the ongoing effects of the pandemic—such as school closures, student and staff quarantines, and challenges implementing remote learning—are continuing to affect school attendance levels. (Preliminary attendance for 2021-22 is not yet available.) Although districts are insulated from these declines in 2021-22, they would experience notable declines in funding to the extent attendance remains at lower levels in 2022-23. Adding a three-year average to the declining attendance adjustment for school districts would soften the declines in LCFF funding attributable to the pandemic.

Allows Districts More Time to Plan for Sustained Declines. Districts with declining attendance over a sustained period typically manage the reductions to their funding with a range of actions that can include reducing staff, consolidating programs, closing schools, and reorganizing administrative functions. Some of these actions can take a few years to plan and implement. The Governor's proposal would slow future funding reductions, allowing districts more time to adjust their educational programs. The proposal could promote fiscal stability for these districts and allow them to prioritize programs that best serve the needs of their remaining students. In addition, the three-year average would help reduce future fluctuations in funding from temporary changes in average daily attendance levels.

Maintains Funding Increases for Growing Districts. Although many districts were experiencing attendance declines—even before the pandemic—about 40 percent had been growing. The Governor's proposal would continue crediting districts with their current-year average daily attendance levels, which means growing districts would receive funding for their additional students.

Long-Term Cost Likely Around $650 Million Per Year. The Governor's budget estimates that the expanded adjustment for declining attendance will cost $1.2 billion in 2022-23, but this estimate is relative to the above-average attendance drop assumed for 2022-23. To understand how the proposal would impact school districts in a normal year, we simulated LCFF funding levels for 2019-20 as though the proposal had been in place for several years. We found that districts would have been credited with roughly 53,000 students more than current law provides. Based on estimated 2022-23 per-pupil rates, the increased LCFF costs would be approximately $650 million.

Proposal Would Require Tracking More Data. Under the Governor's proposal, districts would need to track some additional attendance data. For example, a district would need to identify the students currently attending charter schools and determine how much attendance those students had generated for the district in each of the three prior years. The California Department of Education also would need to collect and process this additional information.

Estimated COLA

COLA Likely to be Higher in May The federal government released additional data used to calculate the COLA on January 27. Using this data and our updated projections, we estimate the COLA for 2022-23 will be closer to 6.17 percent. Covering this higher COLA rate for LCFF would cost approximately $2.6 billion, an increase of $500 million compared with the estimate in the Governor's budget. The federal government will release the final data for the 2022-23 COLA on April 28, 2022.

RECOMMENDATIONS

Adopt Governor's Proposal. We recommend the Legislature approve the Governor's proposal to credit districts with the higher of their current year, prior year, or average of three prior years for purposes of their LCFF allocations. The proposal would address short-term drops in funding due to the pandemic, as well as provide declining districts more time to adjust educational programming for their remaining students. In addition, districts that are growing will continue to be receive increases in their LCFF funding.

Consider Temporary Adjustment for Charter Schools. We think the Governor's plan to study potential attendance adjustments for charter schools is reasonable. The proposed discussions could help identify various options for the Legislature to consider. Unlike school districts, however, charter schools face the prospect of immediate funding reductions based on attendance declines they experience in 2021-22. The Legislature could consider providing some type of temporary adjustment—one option would be to allow charter schools to receive funding based on their pre-pandemic attendance for another year. This would provide the Legislature and the administration more time to examine longer-term alternatives.

LAO PUBLICATIONS

This post was prepared by Michael Alferes, and reviewed by Kenneth Kapphahn and Edgar Cabral. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.