

# Silent Recession

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# Cost structure and revenue raising mechanism are on a collision course

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- Primary cost assumptions are fixed expenses for school districts, e.g., pension costs, are eroding opportunity within district budget to allocate for students.
- Structure for funding of public education, e.g., Prop. 98, Prop. 13, may not provide revenue growth to districts that allows them to keep pace with those expenses.

# Certifications of Financial Reports

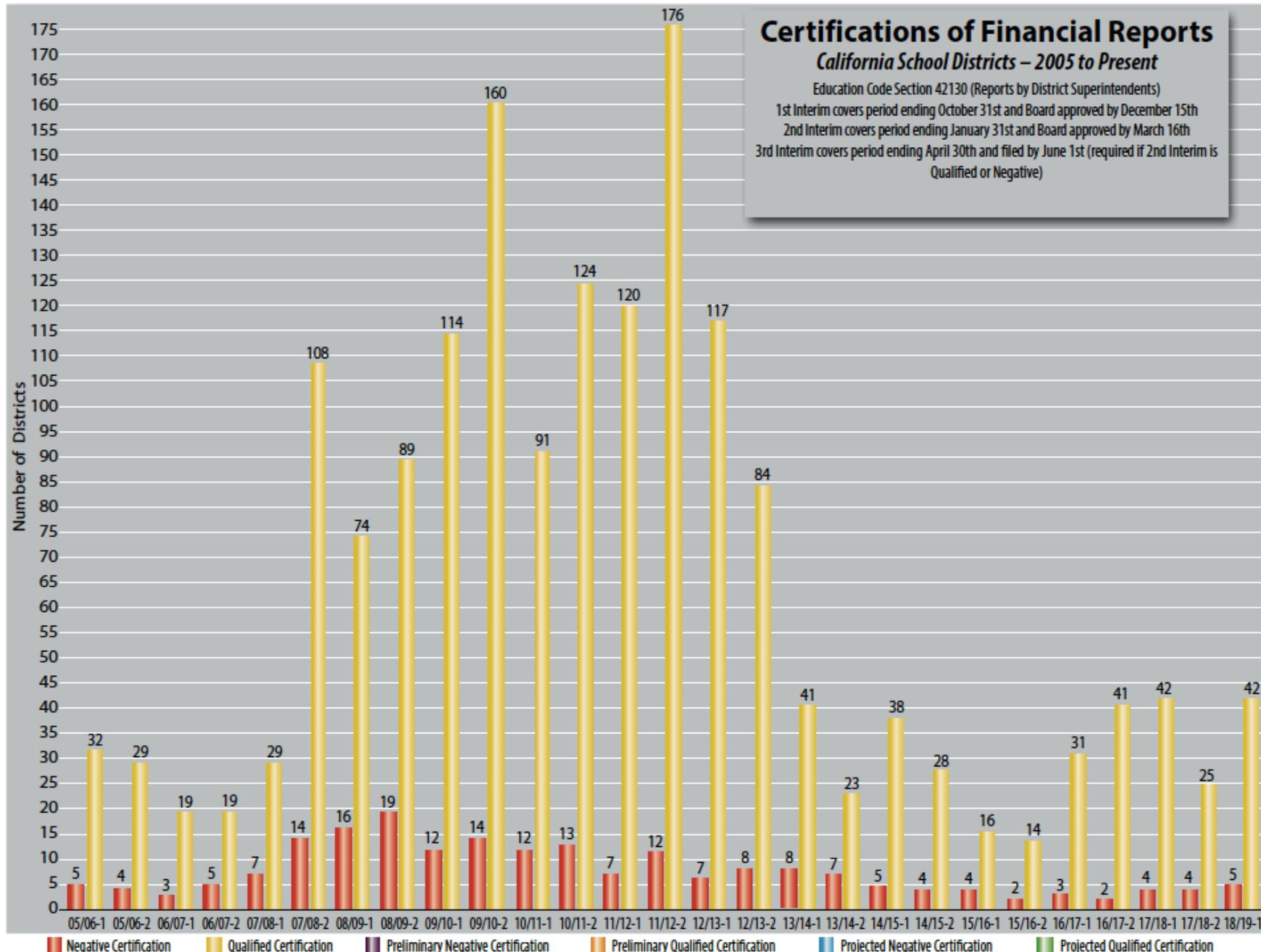
## California School Districts – 2005 to Present

Education Code Section 42130 (Reports by District Superintendents)

1st Interim covers period ending October 31st and Board approved by December 15th

2nd Interim covers period ending January 31st and Board approved by March 16th

3rd Interim covers period ending April 30th and filed by June 1st (required if 2nd Interim is Qualified or Negative)

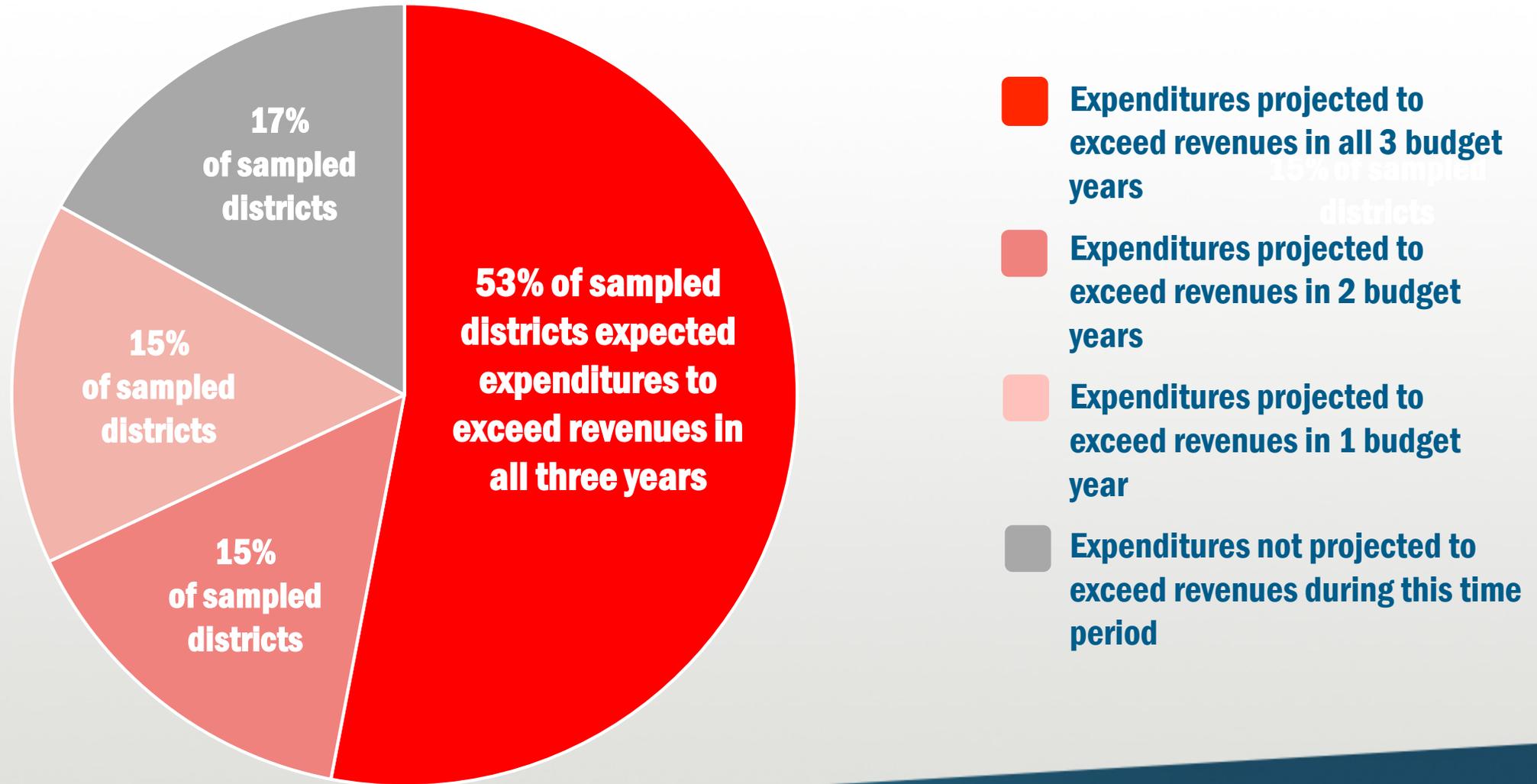


■ Negative Certification   
 ■ Qualified Certification   
 ■ Preliminary Negative Certification   
 ■ Preliminary Qualified Certification   
 ■ Projected Negative Certification   
 ■ Projected Qualified Certification

Positive Certification: Shall be assigned to any school district that, based upon current projections, will meet its financial obligations for the current fiscal year and subsequent two fiscal years.  
 Qualified Certification: Shall be assigned to any school district that, based upon current projections, may not meet its financial obligations for the current fiscal year or two subsequent fiscal years.  
 Negative Certification: Shall be assigned to any school district that, based upon current projections, will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year.

Projected results are based on an informal survey of educational agencies.  
 Fiscal Crisis & Management Assistance Team 2/27/19

**A majority of 55 sample districts did not expect revenues to cover expenditures over the period of 2017/18 to 2019/20.**



# School funding formula overhaul windows are rare

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- Gap between LCFF and most recent change in history was nearly 40 years – not inconsistent with other states' experiences
  - Generally, policy window for these **overhauls occur every 20-30 years**
- And, LCFF lacks any adjustment for geographic cost differences
  - Early simulations suggest that application of the national CWI to 2018-19 full-funded LCFF allocations would ***shift 9-12% of existing resources closer to coastal school districts***

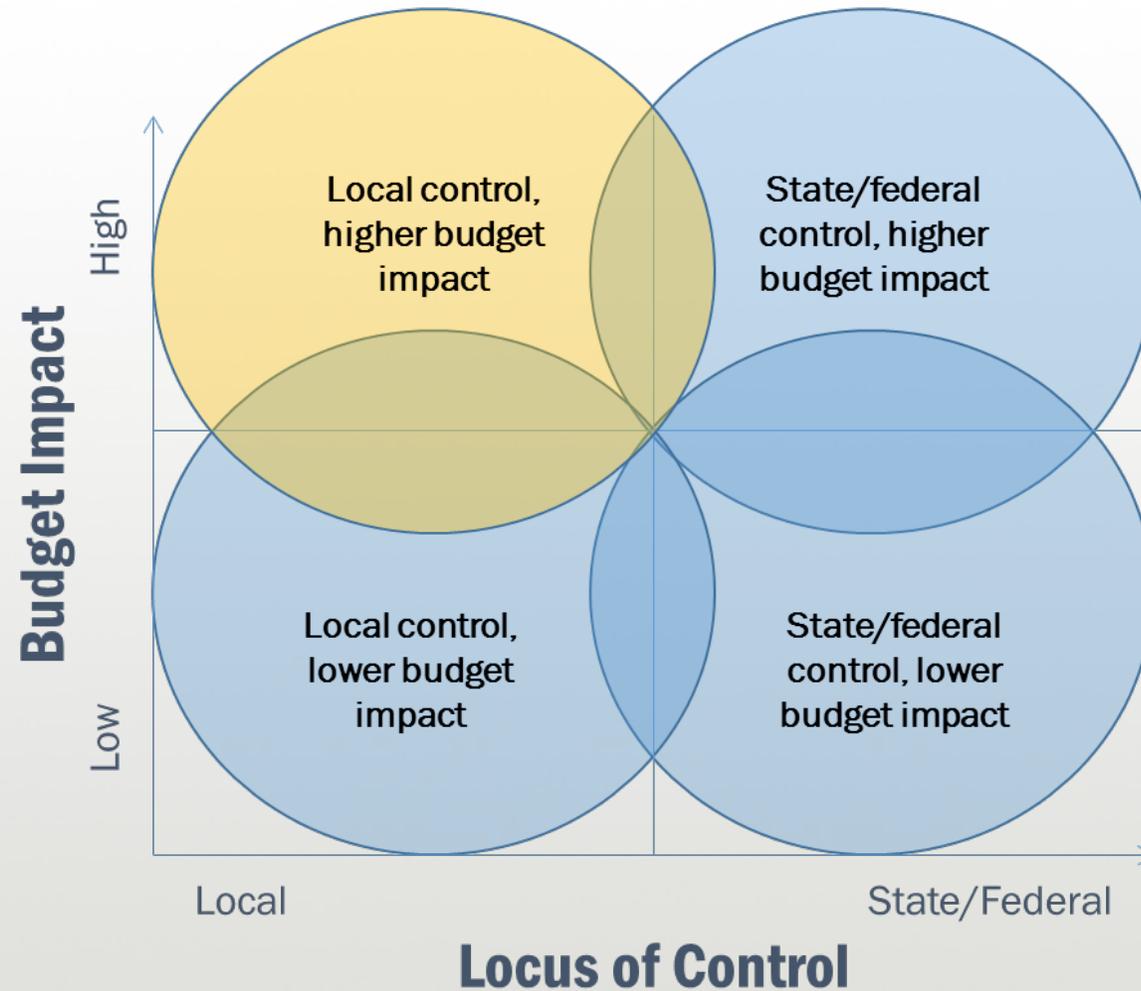
# Little incentive to achieve cost effectiveness

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California's current system lacks identifiable incentive structures to evaluate and take action to cost effectiveness:

- **Increasing ADA** – largely a revenue raising strategy and marginal
- **LCAP document** – provides some requirement to articulate “increased or improved services” for students qualifying for supplemental/concentration funds
- **Multi-year projections** – provide stability and comfort in a future state but disincentivize systems to think beyond their current structures and organization of their resources

# Framework for Assessing Budget Strategies



# Important to recognize the nuance of driving influences for school district financial challenges

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- FCMAT's Fiscal Health Assessment has **20 categories** and **130 prompts** looking at contributions to a school districts health.
- Anecdotally we know governance, district leadership, and system coherence play a role in stability – but little, documented evidence
- Currently, 19 school districts have concentrations of charter schools over 10% of the total population.
  - Of those a little over half have been designated qualified/negative in the year of the report or future year.