Silent Recession

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Cost structure and revenue raising mechanism are on a collision course

• 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 15th
3rd Interim covers period ending April 30th and filed by June 1st (required if 2nd Interim is Qualified or Negative)
A majority of 55 sample districts did not expect revenues to cover expenditures over the period of 2017/18 to 2019/20.

- 53% of sampled districts expected expenditures to exceed revenues in all three years
- 17% of sampled districts
- 15% of sampled districts
- 15% of sampled districts
- Expenditures projected to exceed revenues in all 3 budget years
- Expenditures projected to exceed revenues in 2 budget years
- Expenditures projected to exceed revenues in 1 budget year
- Expenditures not projected to exceed revenues during this time period
School funding formula overhaul windows are rare

- 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

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

- Local control, higher budget impact
- State/federal control, higher budget impact
- Local control, lower budget impact
- State/federal control, lower budget impact

Locus of Control

Budget Impact

High

Low

Local

State/Federal
Important to recognize the nuance of driving influences for school district financial challenges

- FCMAT’s Fiscal Health Assessment has **20 categories** and **130 prompts** looking at contributions to a school district’s 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.