

Date of Hearing: July 12, 2017

ASSEMBLY COMMITTEE ON EDUCATION
Patrick O'Donnell, Chair
SB 527 (Galgiani) – As Introduced February 16, 2017

SENATE VOTE: 40-0

SUBJECT: Education finance: local control funding formula: home-to-school transportation: cost-of-living adjustment

SUMMARY: Establishes a statutory annual cost-of-living adjustment (COLA) for K-12 transportation funding. Specifically, **this bill:**

- 1) Requires, commencing with the 2018-19 fiscal year, the home-to-school transportation add-on to county office of education (COE) and school district Local Control Funding Formula (LCFF) funding to be adjusted by the percentage change in the annual average value of the Implicit Price Deflator for State and Local government Purchases of Goods and Services for the United States, as published by the United States Department of Commerce for the 12 month period ending in the third quarter of the prior fiscal year.
- 2) Requires the percentage change to be determined using the latest data available as of May 10 of the preceding fiscal year compared, as reported by the Department of Finance, with the annual average value of the same deflator for the 12 month period ending in the third quarter of the second preceding fiscal year.

EXISTING LAW:

- 1) Establishes the LCFF, which provides general purpose funding to local education agencies.
- 2) Provides an "add-on" to the LCFF for home-to-school transportation funding. The add-on is provided to each COE and school district that received home-to-school transportation categorical funding prior to the enactment of the LCFF in an amount equal to its 2012-13 allocation.
- 3) Requires each LEA that receives the add-on to spend at least as much on transportation as it did in 2012-13.

FISCAL EFFECT: According to the Senate Education Committee: "Exact costs are unknown and would depend upon the actual COLA rates, but would likely to be in the low millions per year. Assuming the 1.48 percent COLA for select categorical programs included in the 2017 proposed budget, the cost would be \$7.34 million in Proposition 98 General Fund."

COMMENTS:

Background. The LCFF was enacted in 2013. Funding for nearly all categorical programs was rolled into the new formula. However, funding for two programs—Targeted Instructional Improvement Block Grants and home-to-school transportation—was provided as an add-on to those LEAs that received it prior to the enactment of the LCFF. Existing law caps the amount

that LEAs may receive for each of these add-ons to the amount received in 2012-13 under the prior categorical programs and requires districts to maintain at least the 2012-13 level of spending for home-to-school transportation. The add-on for home-to-school transportation is about \$491 million. **This bill** establishes a COLA for the home-to-school transportation add-on commencing with the 2018-19 fiscal year, using the same inflation index that is used for the LCFF.

Home-to-school transportation funding is inequitable. Transportation is arguable the most inequitably funded of all education programs. The funding formula adopted in the early 1980's provided that each LEA's transportation entitlement would be the lesser of its prior year transportation allowance from the state (as adjusted by a COLA provided in the Budget Act, if any) or its prior year approved costs.

By divorcing funding from any measure of actual costs, this formula has had several consequences. First, any LEA that established a transportation program after the enactment of the formula was not entitled to any state aid, even though it had approved costs. This is because that LEA would be entitled to the *lesser* of its approved costs or its prior year allowance from the state, which would be zero.

Second, LEAs whose approved costs were increasing faster than funded COLAs (caused, for example, by increased enrollment) experienced a reduction in the percentage of their approved costs that were covered by the state allowance. Again, this is because their allowance would be based on their prior year allowance, and not on approved costs.

As a result, some LEAs do not receive any state funding, although they have approved costs. Meanwhile, some LEAs get reimbursed for nearly 100% of their approved costs. The Legislative Analyst stated in a 2014 report ("Review of School Transportation in California") that, on average, about 35% of approved transportation costs are covered by state aid. However, there is substantial variability around this average, ranging from 0% to nearly 100%.

A review by the California State Auditor in 2007 ("Home-to-School Transportation Program: The Funding Formula Should be Modified to Be More Equitable"), documented the existing inequities and made the following recommendations:

- Identify all school districts that provide transportation services to their students but are not eligible to receive state funds for the home-to-school program;
- Determine the actual transportation expenditures these school districts incur and the funding sources they use to pay for those expenditures;
- Enact legislation to provide funding to all LEAs that provide transportation services; and
- Revise the funding formula to make it sensitive to actual costs.

Although a primary objective of the LCFF is to reduce inequitable funding, the inequities of home-to-school transportation were locked into the new formula. The purpose of **this bill** is to enable state funding for home-to-school transportation to at least keep pace with inflation.

Amendment needed. Existing law requires LEAs that receive the transportation add-on to spend at least as much on their transportation programs as they did in 2012-13. This bill does not

change that requirement. However, it does not require that the amount received for the COLA also be spent of transportation programs. It is the author's intent that the increased funding that this bill provides for transportation be used for transportation, and not for other purposes. Therefore, staff recommends that the bill be amended to also apply the COLA to the maintenance of effort requirement.

Delete LAO report requirement. This bill amends a section of the Education Code that, among other things, requires the Legislative Analyst's Office (LAO) to submit recommendations to the Legislature by March 1, 2014 regarding revisions to the methods of funding home-to-school transportation. Because the LAO has already complied with this request, **staff recommends** that the bill be amended to delete this requirement.

REGISTERED SUPPORT / OPPOSITION:

Support

Association of California School Administrators
California Association of School Business Officials
California Association of Suburban School Districts
California Federation of Teachers
California School Employees Association
California Teachers Association
Coalition for Adequate School Funding for Special Education
Compton Unified School District
Fresno Unified School District
Public Advocates
Riverside County Superintendent of Schools
San Bernardino County District Advocates for Better Schools (SANDABS)
Torrance Unified School District

Opposition

None received

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