

Date of Hearing: April 26, 2017

ASSEMBLY COMMITTEE ON EDUCATION
Patrick O'Donnell, Chair
AB 1321 (Weber) – As Amended March 30, 2017

SUBJECT: Education finance: fiscal transparency

SUMMARY: Requires that the state report card required by the federal Every Student Succeeds Act (ESSA) include per-pupil expenditures of federal, state, and local funds, including actual personnel and nonpersonnel expenditures for each local education agency (LEA) and each school in the state. Specifically, **this bill:**

- 1) Requires the Superintendent of Public Instruction (SPI), the Controller, and the Director of Finance to do the following:
 - a) Ensure that the state report card required by Section 1111(h)(1) of ESSA (Public Law 114-95) includes the per-pupil expenditures of federal, state, and local funds, including actual personnel expenditures and actual nonpersonnel expenditures of federal, state, and local funds, for each local educational agency and each school in the state for the preceding fiscal year;
 - b) Enable the disaggregation of state and local funds by the source of the funds, including, but not necessarily limited to, local control funding formula base grants and supplemental and concentration grants and other state and local funds for each local educational agency and each school for purposes of state and local reporting; and
 - c) Ensure that the per-pupil expenditures reported include expenditures for free public education, including expenditures for administration, instruction, attendance and health services, pupil transportation services, plant operation and maintenance, fixed charges, and net expenditures to cover deficits for food services and student body activities; but do not include expenditures for community services, capital outlay, and debt service, or any expenditures made from funds received under Title I of the federal Elementary and Secondary Education Act (Public Law 89-10, as amended).
- 2) Requires the SPI, in compliance with federal requirements, to ensure that each local educational agency collects appropriate data, and includes in the local educational agency's annual report the information on per-pupil expenditures as applied to the local educational agency and each school within the jurisdiction of the local educational agency.
- 3) Requires these provisions to be considered, no later than March 1, 2018, by the SPI, the Controller, and the Director of Finance when developing and adopting new standards and criteria for LEA budgets.
- 4) Requires LEAs to adhere to the standards and criteria adopted pursuant to this bill commencing with the 2018–19 fiscal year.

EXISTING LAW:

Federal:

- 1) Requires the annual state report card prepared for ESSA to include the per-pupil expenditures of federal, state, and local funds, including actual personnel expenditures and actual nonpersonnel expenditures of federal, state, and local funds, disaggregated by source of funds, for each LEA and each school in the state for the preceding fiscal year.
- 2) Requires the annual state report card to be concise.

State:

- 1) Requires the SPI, the Controller, and the Director of Finance to develop and the State Board of Education (SBE) to approve standards and criteria to be used by LEAs in the development of annual budgets and the management of subsequent expenditures from the budget.
- 2) Requires the SPI, during the development of the standards and criteria, to convene a committee composed of representatives from LEAs, state agencies, the Legislature, and appropriate labor and professional associations, and requires that any future revisions to the standards and criteria follow this process.

FISCAL EFFECT: Unknown

COMMENTS: According to information provided by the author's office, this bill aligns state law with the new federal requirement in ESSA to report actual per-pupil expenditures by object of expenditure and funding source at both the LEA and individual school levels. ESSA requires this information to be included in state reports beginning with the 2017-18 school year.

The law itself does not specify the level of detail that is required, and implementing regulations adopted last December by the Obama administration have been repealed. However, nonregulatory guidance adopted in January 2017 is available on the U. S. Department of Education's website. According to the guidance, the following expenditures must be included:

- Administration
- Instruction
- Instructional support
- Student support services
- Pupil transportation services
- Operation and maintenance of plant
- Fixed charges
- Preschool
- Net expenditures to cover deficits for food services and student body activities.

The guidance states that expenditures spent for a school, but not necessarily at the school, should be included in the calculation. This refers to funds spent centrally on behalf of each school. Two ways to do this are suggested. One way is to assign expenditures to the school level only if those costs are related to instruction and support functions (like professional development). The

other way is to attribute all of an LEA's central expenditures to individual schools, prorated on the basis of an appropriate measure, such as school enrollment.

Actual expenditures. ESSA requires that "actual" expenditures be reported. The primary purpose of this provision is to require the reporting of the actual expenditures at each school site for salaries and benefits rather than using district-wide averages. However, the term "actual" is applied to all personnel and non-personnel expenditures. This could require the tracking of personnel changes that occur at a school during the school year, because actual personnel costs would be affected by the turnover of employees with different salaries and benefits. It likely would also require tracking expenditures that change from day to day, such as the employment of substitute teachers and other temporary employees at a school site, to include those costs in the "actual expenditures." The cost of tracking and reporting this level of detail could exceed the benefits derived therefrom and the resulting report would be inconsistent with the requirement in ESSA that state report cards be "concise." In addition, an overwhelming amount of data can result in less transparency, not more. Accordingly, **staff recommends** that the bill be amended to require the Controller, SPI, and the Director of Finance to develop a definition of "actual expenditures" in a way that minimizes detailed, day-to-day record keeping, while still fulfilling the intent of the federal law. This could also help find a reasonable balance between the dual requirements that the state report be both, detailed and concise.

This bill expands on federal law. ESSA requires the disaggregation of expenditure data by federal, state, and local funds. **This bill** requires the further disaggregation of state funds, which is not required by ESSA. Although the sponsors and supporters of the bill indicate their primary objective is the disaggregation of the local control funding formula (LCFF) by base grant, supplemental grant, and concentration factor grants, the bill requires the disaggregation of all state funds. Other state funding sources include special education, the K-3 LCFF add-on for class size reduction, the grade 9-12 LCFF add-on for college and career readiness, home-to-school transportation, the mandated cost reimbursement block grant, and career-technical education grants, as well as one time funds that are appropriated from year to year for specific purposes, such as professional development. Because this level of disaggregation of state funds is not required by federal law, it may be a reimbursable state mandate. The committee may wish to consider the cost-benefit ratio of reporting aggregate state funding versus disaggregated state funding.

In addition, the disaggregation of LCFF funds by base, supplemental, and concentration factor grants is problematic, because until LCFF targets are fully funded there is no agreed upon method to do this. Different methodologies result in different dollar amounts assigned to each of the three components of the LCFF. For these reasons, and to address the primary objective of the bill, **staff recommends** that bill be amended to require the disaggregation of only LCFF funds, and only after the LCFF targets have been fully funded.

Input vs. output based accountability. The LCFF and the accompanying system of accountability and continuous improvement were adopted in response to the perceived failure of the prior, input-based accountability system. Prior to the LCFF, school districts received general purpose funding in the form of revenue limits and categorical program funds for a large number of categorical programs. Categorical program funding was required to be spent for the specific purposes—and in accordance with the rules—of each program. Accountability was based on whether funds were spent for their intended purposes and in accordance with program rules; hence the term, "input-based accountability." School districts and education advocates argued

that this system was failing to achieve desired results, because it restricted decision making and prioritizing at the local level, resulted in "one size fits all" policies, and accountability was based on compliance with input rules rather than results.

Accordingly, the state switched to an output-based accountability system with the enactment of the LCFF and the requirement for local education agencies (LEAs) to spend their LCFF dollars in accordance with a locally-developed local control and accountability plan (LCAP). The LCAP requires LEAs to focus on outputs in several priority areas, including academic performance, school climate, performance on Advanced Placement exams, suspension/expulsion rates, and graduation/dropout rates. The online California School Accountability Dashboard allows LEAs and the public to assess and monitor the performance of districts and individual schools on the basis of these output criteria. The LCAPs and Dashboard are the primary instruments for LEAs to hold themselves accountable (and for their communities to hold them accountable) for pupil outcomes. The Dashboard will also be used to identify struggling districts that need assistance from a county office of education or the California Collaborative for Educational Excellence. By required disaggregated reporting of the expenditure of state funds at the LEA and school levels, **this bill** represents a return to an input-based accountability, while still holding LEAs accountable for outputs.

Arguments in support. Letters of support and information provided by the author's office focus on the requirement to disaggregate LCFF funding, rather than the federal conformance provisions, and argue that "we still do not know if the additional grants generated by English language learners, low-income youth, and foster youth enrollment are actually resulting in additional expenditures at the schools they attend." Supporters argue that the disaggregation of LCFF funds required by this bill "will finally enable the transparent reporting of supplemental and concentration grant expenditures for each local education and each school in California."

REGISTERED SUPPORT / OPPOSITION:

Support

Abriendo Puertas/Opening Doors
 Alliance for a Better Community
 Autism Deserves Equal Coverage
 California Alliance of African American Educators
 California Association for Bilingual Educators
 California Charter Schools Association
 Californians Together
 Catholic Charities
 Center for Leadership Equity and Research
 Cesar Chavez Foundation
 Children's Defense Fund
 Congregations Organized for Prophetic Engagement
 Cope Family Center
 Court Appointed Special Education Advocates of Santa Cruz County
 Educate78
 Education Trust-West
 Educators for Excellence
 EdVoice

Equal Justice Society
Families in Schools
Families Now
Family Paths, Inc.
Fathers & Families of San Joaquin
Fight Crime: Invest in Kids
Fresno Metro Ministry
Future is Now
Girls, Inc.
GO Public Schools
The GreenHouse
Half Moon Bay Brewing Co.
Hispanic Foundation of Silicon Valley
InnerCity Struggle
Kids' Own Wisdom
LA Voice
Legal Services for Children
Mission Readiness
Morgan Family Foundation
National Center for Youth Law
North Bay Leadership Council
Our Family Coalition
Peninsula Family Service
Parent Institute for Quality Education
Parent Revolution
Partnership for Los Angeles Schools
Peninsula Family Service
Pro-Kid
Public Counsel
Public Profit
Reading and Beyond
Ready Nation
Restorative Schools Vision Project
San Bernardino School District African American Advisory Council
San Carlos Chamber of Commerce
South Stockton Schools Initiative
Speak UP
Students Matter
Teach for America – California
Teach Plus
The Inn at Mavericks
United Nations of Consciousness
United Way of Greater Los Angeles
Women's Empowerment
Youth Policy Institute

Opposition

None received

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