

SILENT RECESSION

WHY CALIFORNIA SCHOOL
DISTRICTS ARE UNDERWATER
DESPITE INCREASES IN FUNDING

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INTRODUCTION

“[I]T’S EXACTLY THIS SILENT RECESSION SCENARIO.... THOUGH WE ARE RECEIVING MORE DOLLARS EACH YEAR PER STUDENT, THE COSTS THAT WE’RE BEING SADDLED WITH ARE GREATER THAN THOSE REVENUES. SO, WE END UP IN A PERPETUAL CUTTING MODE.”

DISTRICT BUDGET OFFICER

Despite projected increases in state and local education funding between 2017/18 and 2021/22,¹ California school districts face fiscal pressures that threaten to destabilize school district budgets and force reductions in services to students. Examples of these fiscal pressures include reduced funding due to declining enrollment; the costs of upkeep and renovations for aging school facilities; increasing special education program costs; increasing employee health care costs; and the costs associated with recruiting, retaining, and training teachers, including ensuring competitive wages. Still, for many California school districts, the most daunting fiscal pressure is the rising cost of employee pensions, totaling a \$1-billion increase over the previous year in costs to districts statewide in the 2017/18 school year alone.²

Many of these pressures on school district budgets are largely hidden from public view because they do not take the form of new services or programs and instead are part of what is often referred to as the “cost of doing business.” Furthermore, school district spending on employee pensions

is expected to nearly double between 2015/16 and 2020/21, based on complicated retirement and earnings forecasts that are not well understood by the public — or by many state policymakers or district leaders. These costs create pressures on district budgets and erode districts’ abilities to make new investments in programs. They mark a new era of fiscal constraint for California’s school districts — a Silent Recession — which will likely force many districts to make dramatic program adjustments and reductions or risk significant deficit spending, despite overall increases in K–12 funding provided by the state.

This paper suggests that despite efforts to help school districts recover from the recent Great Recession by bringing school district spending power back to pre-recession levels, growth in expenses to maintain operations means that school districts across the state are now experiencing the Silent Recession. Although California’s education funding formula provides revenues that grow incrementally each year, these increases are not based on the actual growth in the costs of operating a school. Consequently, some school districts are experiencing cost increases that are outpacing revenue increases. The fiscal challenges that this dynamic creates will likely require school districts to find new strategies to prioritize how they spend limited dollars and may lead to reductions in investments in current employees and programs, as rising costs effectively crowd out other investments. The Tradeoffs section of this paper presents a conceptual framework for school district leaders to use in considering the tradeoffs and choices they may need to make. In particular, the framework highlights the importance of focusing on budget strategies that address areas in which districts have greater control over expenditures and which have the potential to make a substantial impact on district budgets.

1 <http://www.lao.ca.gov/Publications/Report/3716> (The most recent projections from this report of the state’s Legislative Analyst’s Office show projected increases under a “Growth Scenario”; the report also provides projections under a “Recession Scenario.”)

2 <http://www.lao.ca.gov/Publications/Report/3549>

To explore the implications of the growing fiscal pressures in a range of school districts, WestEd analyzed publicly available single-year budgets and multiyear projections (MYPs) for 25 California school districts that were selected to be representative of the range of sizes, types, and regions of California school districts.³ To check if districts that tend to have higher levels of revenues also tend to forecast the same budget issues as districts in the 25-district sample, MYP analyses were also conducted for two additional samples: 15 school districts that have high unduplicated student counts (74–98 percent of the district’s enrollment is from targeted groups)⁴ and 15 Basic Aid school districts.⁵

In addition, WestEd conducted interviews with district and county leaders involved in WestEd’s Smarter School Spending Community of Practice, as well as interviews with chief business officers from districts across the state. (Additional information on how this paper was developed is in the Appendix.)⁶

Purpose

The purpose of this paper — the first in a two-part series — is to provide a detailed picture of the fiscal pressures that districts face and to outline the implications of the Silent Recession for school districts. The second paper builds on this urgent matter and offers budget strategies and approaches that school districts may use to mitigate these pressures. The implications include tradeoffs faced by districts, potential effects on collective bargaining and broader conversations with the public about the budget, and the implications for deficit spending and for achieving the Local Control Funding

Formula legislation’s key goals of closing the budget gap and the achievement gap.

In particular, this paper draws attention to the rising cost of pensions and to other fiscal pressures on school districts in an effort to broadcast these issues so they are no longer silent. These are complex budget issues that are difficult to explain to the public, but they can be of significant impact and importance to maintaining academic and fiscal solvency for many school districts in California, as well as elsewhere. Many school districts will be forced to navigate formidable budget choices ahead, and this paper is written from the assumption that it is easier to foster authentic engagement and transparent conversations with the public about these choices when there is a shared understanding of current budget realities. Importantly, the current budget challenges in many districts are not new and are not due solely to external pressures. Rather, they are part of a larger story about how district leadership, including local governing boards, have historically made budget decisions — in some cases deferring difficult budget choices — and about the increasing demands placed on the education system and the levels of funding provided for California school districts over time.

Although this paper briefly addresses some of the broader issues related to the adequacy of school funding in California, it does not delve deeply into the debate about whether the funding gap is caused by the adequacy of K–12 education funding in California. Rather, this paper is intended to serve as a springboard for discussions about how districts are dealing with current budget realities.

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- 3 Each district is required to submit to its county office of education a single-year budget and a multiyear projection of its budget along with its Local Control and Accountability Plan by July 1 each year. These multiyear projections include information on the next three budget years.
 - 4 The term unduplicated student counts refers to the total number of English learner (EL) students, low-income students, and foster youth in the district. Unduplicated students may also be referred to as targeted student groups because school districts receive additional funding to target the educational needs of these students, as explained further in the Funding for K–12 Education in California section of this paper.
 - 5 The term Basic Aid school district refers to a district in which local property tax revenues exceed the amount that the district would receive from the state under California’s education funding formula.
 - 6 WestEd has received support from the Bill and Melinda Gates Foundation through the Smarter School Spending project, which provides school districts with tools and strategies to align investments, to prioritize investments based on the districts’ goals for student achievement, and to evaluate program success relative to student outcomes. This paper is part of the project’s body of work, as the paper captures some of the discussions that occurred through a WestEd-facilitated Smarter School Spending Community of Practice, and is intended to be a potential resource for school district budget leaders.

Funding for K–12 Education in California

The passage of the Local Control Funding Formula (LCFF) legislation in 2013 dramatically transformed California's education funding system.⁷ The LCFF gives greater local control to school districts based on the idea that those who work most closely with students are better situated to make spending decisions (i.e., "subsidiarity") and in order to increase equity in school funding and provide districts with additional funding to increase and improve services for students with the greatest needs. The LCFF gave school districts greater flexibility in spending decisions in exchange for greater budget transparency through the requirement that each local education agency (LEA) create a Local Control and Accountability Plan — with input from the community — that details how the district will allocate funds to meet its goals for improving student outcomes.

Under the LCFF, the bulk of the funding that the state provides to each school district is based on the district's average daily attendance (ADA), referred to as base grant funding. In addition, the LCFF designates that school districts may receive supplemental funding and concentration funding from the state. Supplemental funding is based on unduplicated student counts (meaning students from targeted populations): English learner (EL) students, low-income students,⁸ and foster youth in the district; and the state provides concentration funding to a district if more than 55 percent of the district's enrollment is from these targeted student populations. Importantly, school districts must demonstrate that they are increasing or improving services for the student populations that generated the supplemental and concentration funds.⁹ Consequently, school districts that receive more supplemental and concentration funding are working to use such funds to address the needs of targeted students and may experience greater pressure from stakeholders to show that the additional dollars are

improving outcomes and helping to eliminate the achievement gap for the targeted student groups.

The passage of the LCFF coincided with California's recovery from the Great Recession, which meant that the LCFF formula was used to determine how most of the significant increases in funding for K–12 education resulting from the state's post-recession economic growth were distributed. However, much of the increased funding simply offset the 15–20 percent budget reductions and the suspension of cost-of-living adjustments in state and local funding that school districts had experienced previously, between 2008/09 and 2011/12. While the LCFF provided a mechanism to distribute funding to K–12 education, it was not intended and does not operate as an adequacy formula — it is not meant to determine how much money would be adequate for meeting the state's student outcome expectations for each district. Instead, increases in funding for K–12 education related to the LCFF were based on a commitment to returning school districts to pre-recession levels (2007/08), adjusted for inflation.

Notably, the LCFF formula provides for revenues that grow by cost-of-living adjustments each year based on a general measure of the growth in cost for governmental agencies that is inclusive of, but not limited to, education. In other words, the LCFF generates revenue increases without reference to actual growth in the costs that are specific to operating schools. However, as of April 2018, the state legislature is considering new legislation (introduced by assembly member Al Muratsuchi, from Torrance) to increase the LCFF target to provide school districts with additional funding to cover rising fixed costs (e.g., pensions, fuel, maintenance) — a bill directly focused on addressing the adequacy of state funding for education.

7 <https://www.wested.org/resources/path-toward-equity/>

8 Defined by eligibility for the federal Free and Reduced-Price Meals program.

9 As discussed in a later section of this paper, school districts that find they must cut services, even services to targeted student groups, due to rising fiscal pressures may need to focus on strategies to improve services to students during times of budget constraint. According to a 2013 report (<http://www.lao.ca.gov/reports/2013/edu/lcfff/lcfff-072913.aspx>), "Under the LCFF, districts will have to use supplemental and concentration funds to 'increase or improve services for EL/LI pupils in proportion to the increase in supplemental and concentration funds.' The exact meaning and regulatory effect of this proportionality clause is currently unknown." Some stakeholders in the education community remain concerned about the absence of explicit requirements regarding how districts increase or improve services for targeted student groups.

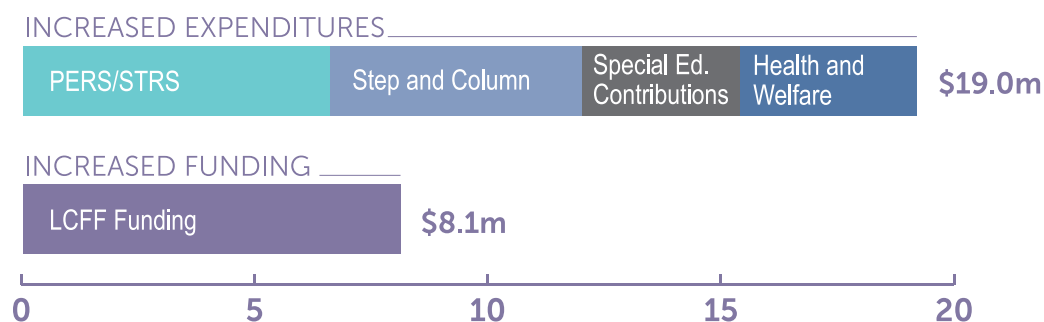
Since the LCFF was enacted, revenue for K–12 education has increased steadily from a statewide average of \$8,987 per pupil in 2013 to \$10,657 per pupil in 2017.¹⁰ In particular, those school districts with large populations of EL, low-income, and foster students have experienced the largest increases in funding. Statewide in 2017/18, school districts received \$1.4 billion more in LCFF funding than in the previous year, and K–12 revenue is expected to continue to increase through 2020/21.¹¹ In fact, Governor Jerry Brown’s January 2018 budget proposal includes nearly \$3 billion to fund full implementation of the LCFF in 2018/19, two years ahead of the schedule that had been previously set for fully funding the LCFF.

However, by design, not all school districts have experienced the transition to the LCFF equally. The demographics of a

district determine how much is generated from the supplemental and concentration components of the LCFF. As a result, districts of similar size, but different demographics, may receive considerably different per-pupil funding under the LCFF.¹² The variation in per-pupil funding rates and local contextual factors (e.g., enrollment growth or decline, age of workforce, size of the district) affect how different districts will experience the significant projected increases in pension costs. According to the Legislative Analyst’s Office, pension costs will constitute an estimated 30–40 percent of future LCFF funding growth. In some cases, districts are already experiencing increases in pension costs that exceed their LCFF funding growth (Figure 1).¹³

Figure 1. Increased pension expenditures outpace LCFF revenue increases in some districts

For this sample school district in 2017-18 (San Bernardino Unified), salary-related expenditure increases will outpace LCFF revenue increases by \$10.9 million.



Source: Authors’ representation of data provided by the San Bernardino Unified School District

10 <http://www.lao.ca.gov/Publications/Report/3549; in inflation adjusted dollars>

11 http://www.lao.ca.gov/Publications/Report/3670 - Proposition.A098_Overview

12 <http://www.ppic.org/publication/implementing-californias-school-funding-formula-will-high-need-students-benefit/>

13 <http://www.lao.ca.gov/Publications/Report/3549>

FISCAL CHALLENGES

This section includes a description of the increasing pressures on school district budgets, as well as the difficult choices faced by school district leaders and the community at large. Specifically, these fiscal challenges include pension liabilities; special education costs; costs associated with recruiting, retaining, and training teachers; employee health care costs; aging facilities; and declining enrollment.

Pension Liabilities

For California — as for many other states — the rising cost of pension obligations presents a serious challenge, particularly for school districts. There are two major pension funds for employees in K–12 education in California: the California State Teachers Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS). CalSTRS, which administers pension benefits for teachers, principals, and other certificated employees such as speech therapists, school psychologists, and nurses, is the nation's second-largest public employee pension fund. CalPERS provides pension benefits for classified employees such as classroom aides, school security officers, and food services, maintenance, and clerical staff. To provide benefits to their members, CalSTRS and CalPERS funds rely on contributions from members, employers, and the state, as well as income from investments. Unfunded pension costs are the difference between the benefits promised to employees and the current savings available in the funds to meet those financial commitments. It is this unfunded liability that has driven dramatic increases in the amount that school districts must contribute to the funds.

The value of funds in CalPERS and CalSTRS fell dramatically during the 2008 recession and has never fully recovered. In response, California's 2014/15 budget included a plan to fully fund CalSTRS within about 30 years by more than doubling district contribution rates between 2013/14 and 2020/21 — from 8.3 percent of each district's payroll in 2013/14 to 19.1 percent of payroll by 2020/21 (Table 1). The state will also have to increase its contribution to the fund to

make up for the shortfall. According to EdSource, increased payments from the state will likely have a trickle-down effect on districts as well. "Money for pensions will divert funding from other priorities at a time when Brown is predicting slower state revenues and the possibility of a recession."¹⁴ As one district budget leader interviewed for this report stated, "Issues with the CalSTRS and CalPERS, that is huge.... When you look at how much increase it is every year . . . there's no way that it can be sustainable the way it's going, because your base dollar that comes in, it gets eaten up already by just your additional increase in your CalSTRS and CalPERS already." Another district budget leader explained that the rising cost of pensions — outpacing increases in funding — will force school districts to reduce services for students.

When the state adopted the Local Control Funding Formula, it made a promise to restore the 07/08 purchasing powers of school districts.... And then a year later they passed the STRS and PERS Reform Acts, which pretty much invalidated that promise. There's no way a school district can get back to those purchasing levels with all of these new mandated payments. So they should have adjusted the LCFF base targets when they changed PERS and STRS because there was a new cost that was never factored in when they set the targets. So, we've been saying . . . for several years that students are going to get fewer services because much of the new money is going to go to employees' deferred compensation.

This concern over rising costs — particularly for CalSTRS and CalPERS — exceeding increases in revenues was repeated by many of the district leaders interviewed for this report.

14 <https://edsource.org/2017/state-new-teachers-to-pay-more-to-shore-up-state-teachers-pension-fund/576481>

Table 1. Large increases in K–12 districts’ pension contribution rates

| | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Rates: | | | | | | | | |
| CalSTRS | 8.3% | 8.9% | 10.7% | 12.6% | 14.4% | 16.3% | 18.1% | 19.1% |
| CalPERS | 11.4% | 11.8% | 11.8% | 13.9% | 15.8% | 18.7% | 21.6% | 24.9% |
| Statewide Total School District Contributions (in millions): | | | | | | | | |
| CalSTRS | \$2,086 | \$2,463 | \$3,120 | \$3,840 | \$4,478 | \$5,305 | \$6,203 | \$6,862 |
| CalPERS | \$1,122 | \$1,104 | \$1,214 | \$1,509 | \$1,710 | \$2,006 | \$2,341 | \$2,734 |
| Totals | \$3,208 | \$3,567 | \$4,334 | \$5,349 | \$6,188 | \$7,311 | \$8,544 | \$9,596 |

Source: <http://www.lao.ca.gov/Education/EdBudget/Details/82>

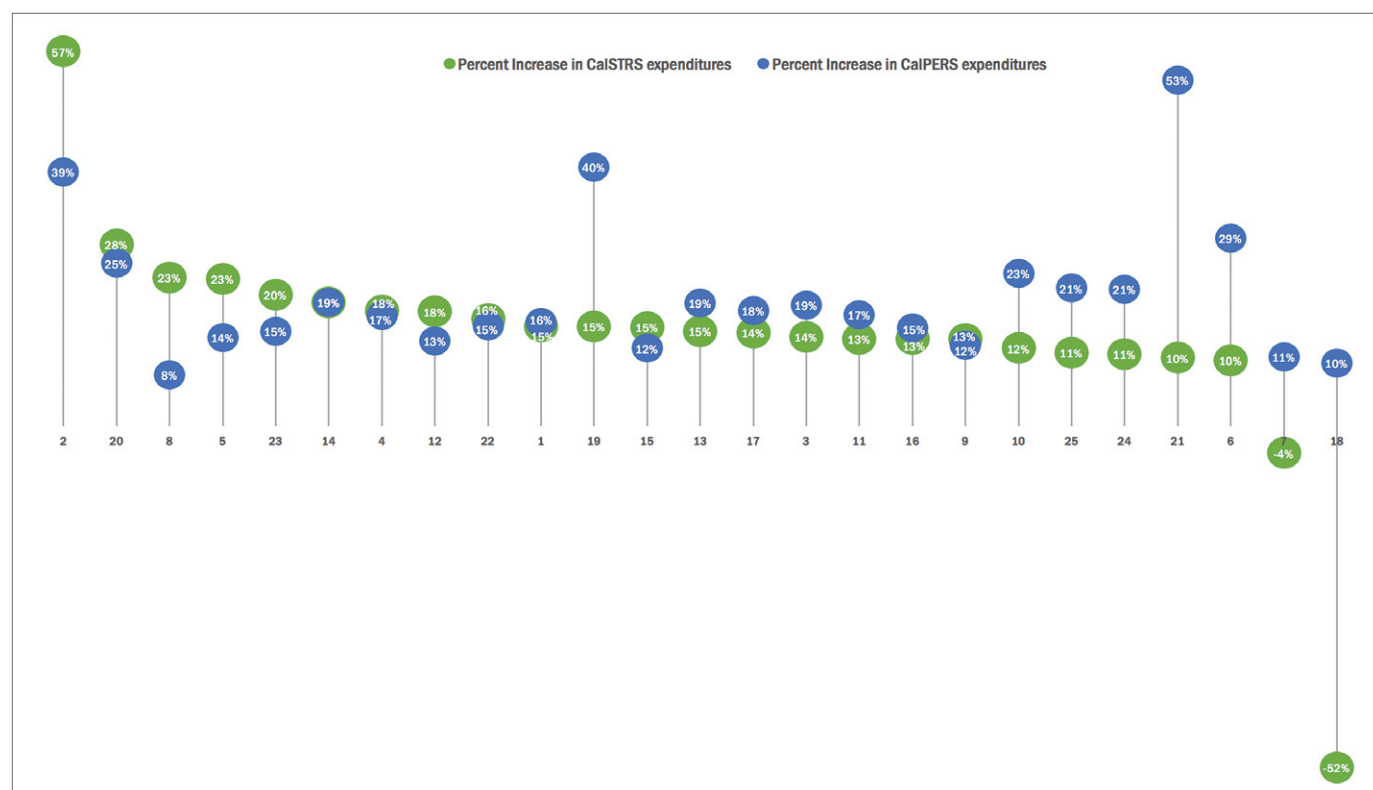
A 2017 report by the Pew Charitable Trust reveals that many other states’ pension systems are faced with addressing growing and significant pension obligations.¹⁵ The report indicates that the gap between the assets of state pension systems across the United States and the benefits promised to employees — referred to as the net pension liability — was \$1.1 trillion in 2015 and was expected to increase by approximately \$200 billion in 2016.

WestEd’s analysis of districts’ annual budgets illustrates the varied impact of the increases in CalSTRS and CalPERS

costs on district budgets. For one district, its contribution to CalSTRS was 57 percent higher from one year to the next (Figure 2). These increases represent millions of dollars in increased contributions for some districts. The average increase across the 25 districts in WestEd’s sample was 16 percent for CalSTRS, or just under \$1.5 million in increased contributions on average, and 19 percent for CalPERS, or just under \$0.5 million in increased contributions, on average. Yet, the steepest increases in district contributions to these funds are still to come.

15 <http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2017/04/the-state-pension-funding-gap-2015>

Figure 2. Nearly every district in the sample is expecting large increases in CalSTRS and CalPERS expenditures between 2016/17 and 2017/18



Source: Authors' analysis of annual budget reports from sample districts

Special Education Costs

Districts also struggle to cover the increasing costs of special education programs. As student needs and the costs of meeting those needs continue to rise, providing appropriate support to meet the needs of students with disabilities is an ongoing concern for districts. The LAO estimates that the cost of educating students with disabilities is, on average, twice as much as the cost of educating general education students.¹⁶

In 2016/17, California enrolled over 680,000 K–12 students eligible for special education services, or approximately 11 percent of all K–12 students in the state.¹⁷ As with other

areas of K–12 funding, the funding provided to districts for special education services has grown based on a modest cost-of-living adjustment, yet funding for special education has generally lagged behind the overall K–12 funding increase. The increases to special education funding have not matched the escalating cost of maintaining high-quality, legally compliant services.¹⁸

One source of increased costs has been from greater awareness of and investment in programs to support students with a primary disability of autism. Although autism was once considered a high-cost, low-incidence disability, California's population of students with a primary disability of autism

16 <http://www.lao.ca.gov/reports/2013/edu/special-ed-primer/special-ed-primer-010313.aspx>

17 <https://dq.cde.ca.gov/dataquest/>

18 http://www.ppic.org/content/pubs/report/R_1116LHR.pdf

has increased from fewer than 40,000 students to more than 100,000 students over the last 10 years (2006/07 to 2016/17).¹⁹ The total number of special education students in California has also increased during this same period, from 679,602 students to 754,277 students, while overall K–12 enrollment in the state has decreased.²⁰

Each student with a disability, as a regularly enrolled student, generates LCFF funding for a district and additionally generates funding for the district through the AB 602 formula, which distributes 80 percent of the state’s special education funds. This formula, like the LCFF, is based on the total enrollment numbers of all students within each Special Education Local Planning Area (SELPA); it is not based on the number of students with disabilities. A 2016 Public Policy Institute of California (PPIC) report asserts that this current system for funding special education in California provides widely different rates of funding for local districts.²¹

Special education spending in California public schools totals over \$12 billion annually. The largest share (62 percent) of the funding comes from local school district sources. AB 602 state sources provide 29 percent of the funding, and the federal government provides 9 percent. According to PPIC’s 2016 report, “The number of students with [individualized education plans] (IEPs) and their share of the school population began to increase in 2010 after many years of being relatively flat. At the same time, overall K–12 student attendance, which drives funding, did not rise. As a consequence, total state funding for students with special needs has fallen in both nominal and constant dollars.”²² This reduction in available dollars to support the needs of students with disabilities has further increased pressure on district budgets.

As one county leader reported to WestEd staff during an interview for this paper, the combination of declining enrollment and increasing special education costs has put enormous pressure on some districts: “Our declining enrollment takes

down our special education revenue. And our special education costs are just soaring with autism and additional social, emotional-type needs. And so that’s kind of a big one that is different for every district, but they’re all experiencing larger encroachments because they’re not getting more money from the federal government. They’re not getting more money from the state government. So, it’s coming down to the local dollars and the unrestricted dollars too to fund more and more of that piece.” As this county leader suggests, special education costs exceed the funding provided by the state and federal governments, a circumstance also stated by other district budget leaders.

Another district leader interviewed for this paper expressed concern over the unpredictable nature of special education costs in his district. “In Special Ed the costs are so crazy, variable, and unpredictable.... You can wind up having a non-public school placement. We can have settlements, we can have kids that come in that are extremely expensive to educate and not get the funding back from the state.... In Special Ed, like within a week, we can wind up spending hundreds of thousands of dollars of money that we didn’t anticipate.... And that’s a challenge.” The unpredictable nature of special education costs was also cited by several other district budget leaders as one of the challenges in managing rising costs in their districts.

Costs Associated with Recruiting, Retaining, and Training Teachers

According to the Learning Policy Institute, 8 percent of all teachers in the United States, or approximately 200,000 teachers, leave the profession each year.²³ Moreover, attrition rates are much higher than 8 percent for new teachers and for teachers in high-poverty schools and school districts.²⁴

Attrition in the teaching workforce comes at a high cost to school districts in California and nationally. At the national

19 Ibid. (This report also notes that California’s autism caseload increased 5.4 times between 2001/02 and 2013/14.)

20 <https://data1.cde.ca.gov/dataquest/>

21 http://www.ppic.org/content/pubs/report/R_1116LHR.pdf

22 http://www.ppic.org/content/pubs/report/R_1116LHR.pdf (p. 7)

23 https://learningpolicyinstitute.org/sites/default/files/product-files/A_Coming_Crisis_in_Teaching_REPORT.pdf

24 Estimates from the Learning Policy Institute’s September 2016 report suggest only around a third of teachers who exit the profession ever return. Also see http://www.ppic.org/content/pubs/op/OP_601EBOP.pdf.

level, the cost of replacing teachers who leave the classroom is more than \$8 billion annually. The cost to replace individual teachers ranges from \$10,000 in rural and small suburban districts to \$20,000 or more in urban districts.²⁵ Some of these costs are driven by investments in professional development for the teachers who enter the district to fill positions that have been vacated. Another “cost” of the teacher shortage is in terms of an increase in the number of teachers who are entering the profession with waivers, permits, and intern credentials. In other words, they have not necessarily had full preparation to handle the challenges associated with teaching, which may also impact the quality of student learning.

Often, districts must resort to long-term substitute teachers in the scramble to fill all of the district’s vacancies. Many school districts across California are struggling to recruit and retain enough teachers to fill all of their vacancies, particularly in high-poverty, urban, and rural school districts. Teacher vacancies are also greater for science, mathematics, and special education.²⁶

These shortages have led to competition among some school districts to attract teachers through higher wages. Some school districts in which the shortages are the most acute have gone further to incentivize prospective teachers to come to the district. For example, the Natomas Unified School District has offered to cover most of the cost of teacher credential programs and provides free use of a MacBook and a bonus payment to teachers who live in the district. The district also provides \$5,000 in signing bonuses to bilingual and minority teachers. The Natomas district projects a cost of over \$800,000 for its three-year recruiting effort.²⁷ Similarly, the Golden Plains Unified School District, a district of fewer than 2,000 students, offered a \$3,000 signing bonus for all new teachers in 2016/17. This signing bonus was increased to \$5,000 for new hires in 2017/18, with new bilingual teachers receiving a \$7,300 bonus.²⁸ Other districts offer to pay moving expenses for teachers coming into the district, or match the

salaries of veteran teachers from the previous districts of the incoming teachers. These bonuses represent substantial investments by school districts that are already struggling to cover other costs.

Employee Health Care Costs

The costs of providing health care benefits for employees and for retirees have also increased, and many districts do not have the funds set aside to cover the growth in these costs. Nevertheless, nearly all school districts in California provide benefits to current employees (covering medical, dental, and optometric costs either in part or in full, depending on the district, at least until employees turn 65), and about two-thirds of the state’s school districts also provide health benefits to retired employees.

According to the LAO, districts are now spending about twice as much on retiree health benefits as they did in the early 2000s, and the LAO notes, “This added cost pressure comes at a time when districts are facing other pressures — most notably, rising pension costs and expectations to enhance services for low-income students and English learners.” Based on districts’ annual audit reports, the LAO calculated an unfunded liability for retiree health benefits alone of \$24 billion statewide.²⁹

However, the same report from the LAO indicates that only a few large urban districts account for most of the unfunded liability. These districts have unfunded liabilities ranging from \$3,800 up to \$27,000 per pupil, while the average unfunded liability for all other districts in the state is approximately \$1,500 per pupil. Yet, even \$1,500 in additional funding per pupil represents a substantial cost for districts that currently receive about \$10,657 per pupil on average in state funding.

WestEd’s analysis of the general sample of 25 districts reveals that between 2016/17 and 2017/18 alone, 10 of these school districts anticipate an increase of at least \$0.5 million in their

25 https://www.huffingtonpost.com/entry/we-can-solve-teacher-shortages-heres-how_us_59114ac7e4b056aa2363d899 and https://www.washingtonpost.com/news/answer-sheet/wp/2017/09/18/where-have-all-the-teachers-gone/?utm_term=.9c9dda6654f2

26 <https://learningpolicyinstitute.org/product/ca-district-teacher-shortage-brief>

27 <http://www.sacbee.com/news/local/education/article181911096.html>

28 <https://edsources.org/2017/outside-the-limelight-rural-schools-face-challenges-in-finding-and-keeping-teachers/579426>

29 <http://www.lao.ca.gov/Publications/Report/3704>

health-related expenditures, with 7 of these 10 anticipating the increase to exceed \$1 million. In 2016/17, these districts ranged in enrollment from fewer than 3,000 students in one district to more than 53,000 students in another. Moreover, the average increase in spending on health-related expenses between 2016/17 and 2017/18 among the sample of 25 school districts is approximately \$800,000, representing a 4-percent increase in just a single year.

Aging Facilities

Another looming cost to California school districts is the cost to repair, replace, and modernize school facilities. Many districts have delayed costly repairs to school sites due to a lack of funding to support these efforts. A policy research paper by the Center for Cities and Schools at the University of California, Berkeley, identified an “ongoing, structural pattern of inadequate and inequitable spending in many school districts” on K–12 public school facilities in California. Consequently, more than half of the school districts in California continue to underspend on facilities each year, resulting in costly repairs and health and safety risks in some cases. The paper also identified that school districts serving higher numbers of low-income students “spent less on capital outlay per student and more on maintenance and operations per student than districts serving higher-income students.... This means school building operations cost more in these poorer districts, leaving fewer dollars for education programs.”³⁰ As the costs of aging facilities increase, districts are left with fewer dollars overall, creating further pressure on their already constrained budgets.

To meet industry standards for facilities, schools would need to spend on maintenance and improvements an amount each year that is equivalent to about 7 percent of what it would cost to replace each building, according to a 2016 report by the Center for Green Schools, the National Council on School Facilities, and the 21st Century School Fund. In California, such maintenance and improvement costs would translate

into an additional \$6.7 billion, or \$1,083 per student, each year. Yet, California is not alone in the inadequacy of spending for facilities. The report ranks California’s spending — \$806 per student on maintenance and operations in 2013 — as being “average” in a nation of what it calls “underspenders.”³¹

A 2017 report from California’s Legislative Analyst’s Office (LAO) confirms the existence of a gap in funding for facilities — specifically, a gap between what is necessary to address the facilities needs of local school districts and what the state has proposed under a new bond measure passed by voters in 2016.³² According to the report, the governor’s \$655-million bond proposal “would clear the \$370 million in already approved school projects awaiting funding [but] only \$285 million would be available to address the remaining \$2 billion in projects on the acknowledged list.” The LAO has raised concerns about funding for facilities in California previously as well. In 2015, the LAO wrote the following:

Many groups over the years have raised serious concerns with the state’s current school facilities program. Notably, the existing program fails to treat school facility costs as an ongoing expense despite the recurring nature of facility needs, allows disparities based on school district property wealth, fails to target funding according to greatest need, results in excessive administrative complexity, and lacks adequate accountability mechanisms.³³

To raise additional dollars for school facilities, districts can go to their local voters for approval of general obligation bonds. However, voter willingness to approve such bonds varies by city and region, and this willingness is not necessarily in accordance with school district need. According to an Ed-Data analysis of local school facilities funding, “With notable exceptions, large urban districts or districts with relatively few businesses and high concentrations of lower-income families have more difficulty generating support for schools. This circumstance results in inequities that are outside the

30 http://citiesandschools.berkeley.edu/uploads/Vincent_Jain_2015_Going_it_Alone_final.pdf

31 <https://kapost-files-prod.s3.amazonaws.com/published/56f02c3d626415b792000008/2016-state-of-our-schools-report.pdf?kui=wo7vkgV0wW0LGsjxek0N5A>

32 <http://www.lao.ca.gov/handouts/education/2017/School-Facilities-033017.pdf>

33 <http://www.lao.ca.gov/reports/2015/budget/school-facilities/school-facilities-021715.aspx>

scope of the Serrano v. Priest guidelines for more nearly equal treatment of taxpayers and of students.”³⁴

The district chief business officers (CBOs) who were interviewed for this report detailed the difficulty of keeping up with the rising cost of facilities. One CBO focused specifically on the challenge of raising revenue locally through general obligation bonds to cover the gap between local needs and state funding for facilities. Giving an example, the CBO noted the difficulty of covering the costs associated with aging facilities as well as the rising costs of basic utilities such as water and electricity. “Although we may be getting an increase with the Local Control Funding Formula, \$4 million of our new money is already spoken for.... That doesn’t even include utilities and facility needs.... It’s just a real challenge that our base funding is not adequate to cover all of our needs.” Similarly, another CBO talked about the need to maintain and modernize aging facilities through a \$10-million project in a district with an annual budget of \$100 million. To fund the project, the district plans to ask the community to pass a new bond measure while the district is still paying off an earlier bond. The CBO recognized that getting support for the new bond would be difficult. “It’s going to be a tough sell.... Our high school, our infrastructure system is like 50 years old. It was built back in 1967, I believe. And we still have the old infrastructure.... So that, right now, what we’re doing is that project, regardless if we have a bond or not, we have to fix it.” From the experience of these CBOs, there simply is not enough state funding or local borrowing capacity to keep up with the demands of maintaining or replacing their district facilities.

Declining Enrollment

Under the LCFF, funding for school districts in California is directly tied to enrollment as measured by average daily attendance (ADA). Over the last 20 years, California has had a relatively flat level of student enrollment, and the Department of Finance projects a decline of 181,000 students over the next decade. While the overall enrollment is declining in the majority of California school districts, there are some areas with more significant declines in student enrollment. The

Department of Finance projects that enrollment will decline in 28 of 58 counties by 2026/27, including 18 counties that will lose 5 percent or more of their enrollment. Ventura and Santa Cruz Counties are each projected to lose over 10 percent of their K–12 enrollment by 2026/27. In the same time period, Orange County and Sonoma County are each projected to lose over 14,000 students, while Los Angeles County is projected to lose nearly 120,000 students.³⁵

Enrollment has declined since 2014/15 in 11 of the 25 districts in the general sample analyzed for this report (Table 2). Although reductions in the actual number of students were not particularly substantial, the decline in enrollment still represents a loss of spending power and economy of scale for these districts. With state funding at approximately \$10,657 per pupil, a reduction of even 55 students equates to a loss of over half a million dollars for a district. Yet, declines in enrollment are not uniform across districts. Accordingly, school districts may benefit from tools to accurately project student enrollment changes, as well as a flexible state policy environment so that district leaders can anticipate changes in funding and adjust classroom, staffing, and budgeting allocations accordingly.

³⁴ <https://www.ed-data.org/article/School-District-Bond-and-Tax-Elections>

³⁵ http://www.dof.ca.gov/Forecasting/Demographics/Projections/Public_K-12_Graded_Enrollment/

Table 2. Changing enrollment in sample districts, 2014/15 to 2016/17

| | 2014/15 | 2015/16 | 2016/17 | Enrollment Change | % Change |
|------------------------|-----------|-----------|-----------|-------------------|----------|
| District 21 | 9,277 | 8,900 | 8,782 | -495 | -5.3% |
| District 5 | 10,921 | 10,632 | 10,362 | -559 | -5.1% |
| District 19 | 16,935 | 16,702 | 16,426 | -509 | -3.0% |
| District 24 | 14,996 | 14,736 | 14,554 | -442 | -2.9% |
| District 2 | 1,936 | 1,916 | 1,881 | -55 | -2.8% |
| District 1 | 32,938 | 32,454 | 32,004 | -934 | -2.8% |
| District 11 | 23,947 | 23,885 | 23,696 | -251 | -1.0% |
| District 10 | 22,258 | 22,205 | 22,039 | -219 | -1.0% |
| District 13 | 53,365 | 53,303 | 53,152 | -213 | -0.4% |
| District 12 | 28,999 | 28,719 | 28,958 | -41 | -0.1% |
| District 16 | 9,914 | 9,948 | 9,904 | -10 | -0.1% |
| District 3 | 14,768 | 14,754 | 14,778 | 10 | 0.1% |
| District 6 | 62,888 | 62,767 | 63,061 | 173 | 0.3% |
| District 9 | 2,482 | 2,545 | 2,505 | 23 | 0.9% |
| District 23 | 42,339 | 42,462 | 42,769 | 430 | 1.0% |
| District 17 | 15,584 | 15,717 | 15,772 | 188 | 1.2% |
| District 18 | 3,353 | 3,424 | 3,397 | 44 | 1.3% |
| District 15 | 31,954 | 32,255 | 32,425 | 471 | 1.5% |
| District 20 | 20,415 | 20,530 | 20,779 | 364 | 1.8% |
| District 4 | 11,259 | 11,374 | 11,547 | 288 | 2.6% |
| District 14 | 6,349 | 6,511 | 6,579 | 230 | 3.6% |
| District 8 | 37,318 | 38,070 | 38,705 | 1,387 | 3.7% |
| District 22 | 6,555 | 6,714 | 6,814 | 259 | 4.0% |
| District 7 | 11,204 | 11,438 | 11,722 | 518 | 4.6% |
| District 25 | 1,982 | 2,040 | 2,188 | 206 | 10.4% |
| Sample District Totals | 493,936 | 494,001 | 494,799 | 863 | 0.2% |
| Statewide Totals | 6,235,520 | 6,226,737 | 6,228,235 | -7,285 | 0% |

Source: <https://dq.cde.ca.gov/dataquest/>

A decline in enrollment can also mean that districts do not require as much funding to meet current student needs. For example, the district may not need to hire as many teachers, counselors, or staff. Yet, reductions in funding in response to declines in student enrollment are complicated by several factors. First, when district enrollment declines, the district's fixed costs (e.g., heating, lighting, maintenance) then consume a larger share of the budget and districts do not generally see declines in demands for specialized programs such as special education and English learner supports (see the Increasing Special Education Costs section for additional detail). In addition, certain adjustments can be difficult to scale to the reduction in the number of students. For example, a reduction of 6 students per grade level may not be enough to allow for reducing the number of teachers. If the district loses 30 students in a single grade level, however, staffing reductions — and therefore cost savings — may be more straightforward for the district.

In addition to experiencing declining enrollment caused by shifts in the number of school-age children, many California school districts have experienced enrollment declines as students exit the traditional public school system for charter

schools. The number of charter schools has increased each year, as has the number of students enrolled in charter schools. Currently, there are over 1,200 charter schools in California, with approximately 630,000 enrolled students. Charter school enrollment now represents nearly 10 percent of the state's overall student enrollment. Furthermore, charter schools are expected to continue to increase enrollment by nearly 30,000 students in California in 2017/18.³⁶

Increased enrollment in charter schools in California contributes to reductions in school district budgets. When students leave their district to attend a local charter school, state funding follows them out of the district.³⁷ With the state's per-pupil funding at approximately \$10,657 per student, a loss of enrollment of 30,000 students equates to a loss of nearly \$320 million in funding for California's school districts.

³⁶ <http://www.ccsa.org/understanding/numbers/>

³⁷ <https://www.edweek.org/media/2016/12/29/school-finance-education-week-quality-counts-2017.pdf>

IMPLICATIONS OF THE SILENT RECESSION

The fiscal challenges outlined in this paper are a clear sign that many California school districts face a tough road ahead with wide-ranging implications for students, community, staff, and district leadership. Moreover, several of the fiscal challenges outlined in this paper tend to have a disproportionately negative impact on high-poverty districts with larger concentrations of at-risk student groups. These costs, therefore, have the potential to exacerbate inequities in funding at the same time that the Local Control Funding Formula (LCFF) is designed to make funding more equitable.

Importantly, the current budget challenges faced by a number of California school districts cannot be wholly explained by external pressures and rising costs. Rather, some districts have put off difficult budget choices (such as spending on school facilities) and have struggled to communicate the implications of budget and collective bargaining decisions to the community and other key stakeholders. Furthermore, in some districts, decisions about the budget have been complicated by the decisions of local school board members who have failed to heed the advice of chief business officers (CBOs) and other district leadership about the need for fiscal constraint. Other school districts have faced their budget challenges directly, suggesting the need to reduce this variation across districts and move more consistently toward better decision-making across all of California's school districts.

Outlining these fiscal challenges and the variety of responses to them, as well as raising awareness about these challenges, are critical to helping decision-makers and the public understand the ways in which districts, with increasing constraints on their budgets, will likely be pushed to conduct business differently in the future. Laying out the challenges ahead may also help to highlight where districts can plan for growing costs that are outside of the districts' control. For example, many commentators have noted that pension costs, which are largely outside of the control of district leaders, will likely

reduce investments in current employees and programs, effectively crowding out other investments.³⁸

Tradeoffs

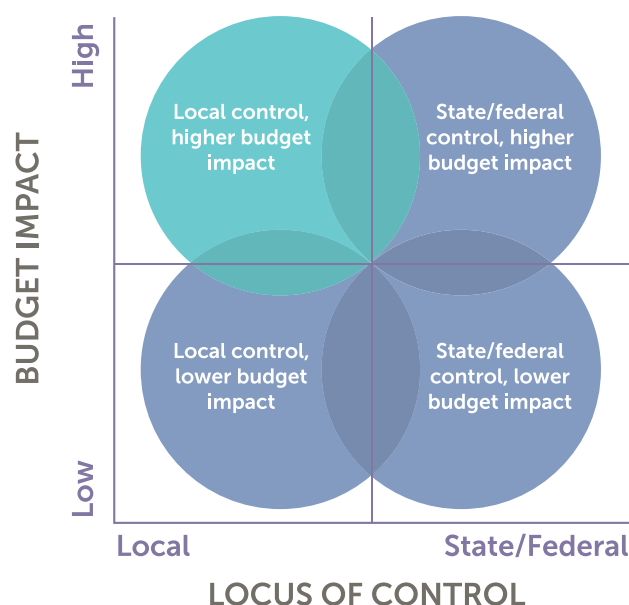
Such crowding out means that school districts may be forced to make tradeoffs as they balance competing costs and adjust to constrained revenues. District leaders will need to consider how to make spending (and cutting) decisions, while keeping their goals for student success at the center of their decision-making process. Yet, district leaders must also contend with having limited control over some of the rising costs. Figure 3 is a conceptual framework for exploring the level of control that districts have over these encroaching costs and their relative impact on district budgets. The framework is intended to represent the range of controls and costs among districts, since district costs and — in some cases — level of control are impacted by local factors. For example, enrollment remains steady in some districts in California, while other districts are disproportionately impacted by declines in enrollment and the resulting reductions in state funding provided to these districts.

The framework is also intended to help district superintendents, CBOs, and policymakers pinpoint where districts may need additional support from the state in order to make changes, and where they have greater control over district expenditures. For example, districts have little control over costs such as their rising contributions to pension funds, which have a large impact on district budgets. However, districts may have more control over facilities costs, where planned investments in maintenance may reduce potentially larger expenditures in the future.

The second paper in this series, in development for publication in 2018, focuses on budget strategies and addresses those strategies that fall into the upper-left circle in the framework shown in Figure 3. These are strategies over which districts have greater local control and which have the potential to make a substantial impact on district budgets.

38 <https://siepr.stanford.edu/sites/default/files/publications/17-023.pdf>

Figure 3. Districts have varying degrees of control over rising fiscal pressures, and some fiscal pressures have a disproportionate impact on district budgets

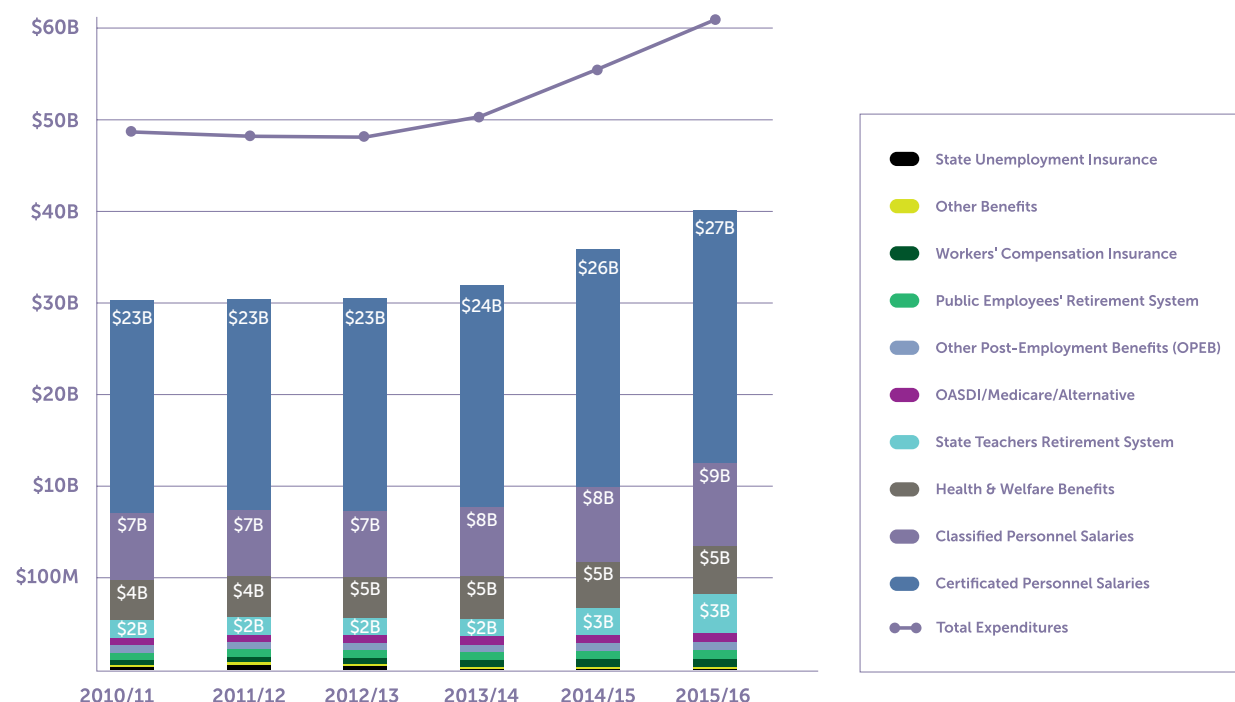


Since employee salaries and benefits represent such a large share of district budgets (approximately 82 percent in California in 2015/16),³⁹ the tradeoffs that districts make will almost certainly include decisions about how much to invest in salaries and benefits for employees. The tradeoff between investing in employee costs versus other costs has implications for each district's ability to compete with other, better-resourced districts and with other industries to attract quality staff. It also will likely impact whether districts are able to provide livable wages for employees, allowing them to live in the communities in which they teach. General Fund⁴⁰ expenditures on employees have continued to climb over the years, driving up total expenditures in districts across the state (Figure 4).

³⁹ <http://www.ed-data.org/>

⁴⁰ According to the California School Boards Association, "The General Fund includes both a restricted and unrestricted portion. We often refer to the General Fund unrestricted as the 'fund of last resort' because it is where most of the district's discretionary dollars reside. The majority of all salaries and benefits, on average approximately 84% of the district's expenditures, reside in the General Fund." (http://csba.org/TrainingAndEvents/~media/CSBA/Files/TrainingAndEvents/AllEvents/MastersInGovernance/Course3_FIN/2014_07_SchoolFinanceTerms.ashx)

Figure 4. Increase in employee costs over time for California school districts



Note: Examples of "Other Post-Employment Benefits" include retirement incentives, tax-sheltered annuities, and deferred compensation.
Source: California Department of Education; data retrieved from <http://www.ed-data.org/> on January 8, 2018

The crowding out caused by increasing employee-related costs and other expenses will also impact the types of programs and services that districts are able to provide. With fewer General Fund dollars available, districts may have to reduce some of the resources offered to children and families. These decisions must be made in light of the LCFF's requirement to use supplemental and concentration funds to "increase or improve" services for targeted student groups, and may be influenced by pressure from advocacy groups to ensure that these funds reach the students they are intended to serve, as well as being driven by education leaders' desire to close achievement gaps.⁴¹

Deficit Spending

WestEd's analysis also indicates that the current fiscal pressures have pushed many school districts into deficit spending. Specifically, for all of the 55 districts selected for this paper's analyses, WestEd determined the net increase or decrease in each district's unrestricted funds, according to the districts' multiyear projections (MYPs).⁴² The MYPs for all but three of the districts in this sample indicate that the districts' unrestricted expenditures will exceed revenues in at least one of the three years following the current budget year, and more than half of the school districts in the sample anticipate that expenditures will exceed revenues in all of the next three years (Figure 5).⁴³ Table A3 has additional details

41 <https://www.cde.ca.gov/fq/aa/lc/lcfffaq.asp>

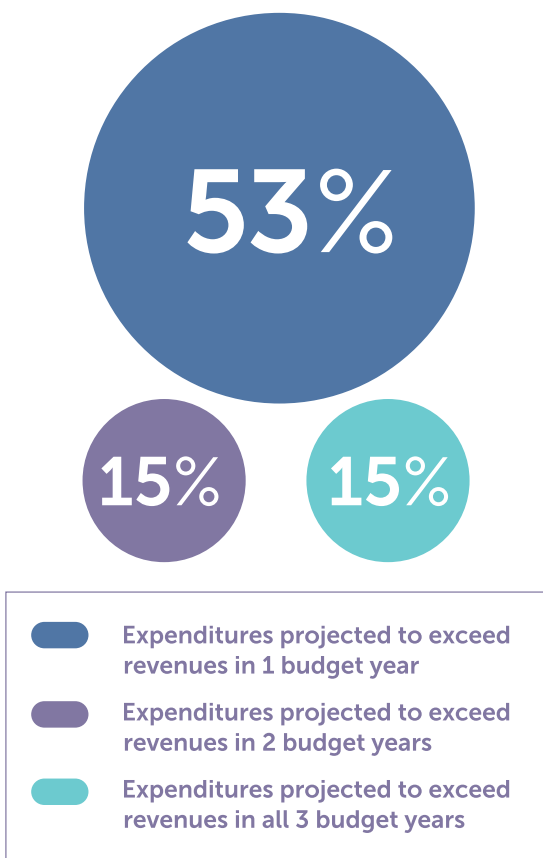
42 WestEd researchers analyzed the unrestricted funds because these funds indicate a district's fiscal solvency.

43 The analysis of each district's MYP was unable to distinguish between the use of ongoing funds versus one-time funds by the district, which may impact the net increase/decrease for the school district's budget over time.

on the net increase or decrease in unrestricted funds for the sample districts.

Figure 5. Sample districts' expectations for future expenditures and revenues

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



Source: Authors' analysis of multiyear budget projections from sample districts

Since the LCFF provides additional funding to districts that have a high proportion of students from targeted student populations (also known as unduplicated student counts, as noted earlier), WestEd analyzed the net increase or decrease in unrestricted

funds in the MYPs for a sample of 15 districts that were selected for having among the highest proportions of targeted students (ranging from 74 percent to 98 percent of the total number of students in these districts).⁴⁴ Ten of these 15 districts project that their unrestricted expenditures will exceed their revenues in at least one of the three years following the current budget year, and 6 of these districts anticipate that their revenues will exceed expenditures in all of the next three years.

WestEd also analyzed MYPs for a sample consisting of 15 Basic Aid school districts, a type of district that tends to have high revenues.⁴⁵ Thirteen of the districts in the Basic Aid sample anticipate that their expenditures will exceed revenues in at least one of the next three years, and two-thirds of these districts project that their expenditures will exceed revenues in all of the next three years.

These analyses indicate that even among districts that are benefitting most from the state's new funding formula and among districts that might be considered better off financially due to their property tax base, most of these districts expect that their expenditures will outpace revenues. At the same time, most of these districts also project healthy ending fund balances, with only one district projecting a negative fund balance in 2019/20.

WestEd's analyses also indicate that deficit spending is projected despite the fact that many school districts plan to make substantial reductions in expenditures over the next three years. In addition, districts have several strategies at their disposal in the short term to deal with revenue shortfalls, including using short-term Tax Revenue Anticipation Notes (TRANs) and borrowing funds from other funding sources or from their reserves. However, these strategies do not address more serious structural deficits, with expenditures continuing to exceed revenues even during more favorable economic times.

⁴⁴ Based on data from <http://ias.cde.ca.gov/lcffsnapshot/lcff.aspx> as of February 22, 2018

⁴⁵ A school district is considered Basic Aid if local property tax revenues exceed the amount that the district would receive under California's education funding formula.

LOOKING AHEAD: STRATEGIES

To extend the topics covered in this paper, WestEd is conducting interviews with chief business officers (CBOs) and other district leaders from across the state. The purpose of these interviews is to gather information on the strategies that CBOs are using to mitigate the Silent Recession and preserve quality educational programs for students. As one state education leader observed, it is the ability and willingness of districts to make difficult decisions that “will impact the opportunities and outcomes for students as much external cost pressures.” Findings from these interviews will be included in a second paper that is in development for publication in 2018.

WestEd will explore these strategies in light of the goals of the Smarter School Spending project. The project’s goals — stronger alignment between fiscal services and programs, improved planning and decision-making, and prioritizing investments that provide the greatest benefit for students — provide a critical lens through which to view the strategies outlined by CBOs and the potential impact on district budgeting, operations, programs, and ultimately, students. WestEd researchers anticipate that the strategies suggested by CBOs will fall into several broad categories that correspond to the goals of the Smarter School Spending project and that include increasing effectiveness (which requires stronger alignment between fiscal services and programs) and prioritizing investments that provide the greatest benefit for students and increase efficiency (which requires improved planning and decision-making). The following paragraphs describe these strategies in broad terms.

Increase Effectiveness

In times of fiscal constraint — when districts have to make more difficult choices about where to invest limited dollars — measuring the return on investment (ROI) provides district leaders with information on how to direct resources to investments with the highest returns. As part of this work, district leaders may need to continue eliminating silos that separate the budget office and program offices to ensure collection of the right data to measure ROI, as well as continuing to ensure appropriate monitoring and response to the data.

Increase Efficiency

Times of fiscal constraint also require that districts find ways to increase efficiencies within their systems, stretching available dollars so that they have the greatest impact. While the analyses conducted for this paper indicate that districts are relying on strategies such as deficit spending, interviews have revealed numerous other strategies that districts have also begun to employ to more efficiently use resources. These strategies include a focus on marketing the district to the community to increase enrollment, as well as closer budget monitoring, particularly as it relates to staffing and eliminating unfilled positions that do not support core classroom functions.

COMMUNITY UPDATE FROM THE BERKELEY UNIFIED SCHOOL DISTRICT

January 16, 2018

A series of economic and fiscal conditions and factors are putting pressures on school district budgets across the State of California. One of these is the fact that there have been several years in which state education funding has not kept pace with expenses. Furthermore, the mandate for funding state employee pensions has risen significantly (an estimated \$1.3 million annual increase for Berkeley each year through 2020–21), and school districts have needed to address employee compensation after several lean years during the Great Recession (2007–12).

Serve High-Need Students

Another set of strategies aims to address the supports and opportunities provided to high-need students such as those from low-income backgrounds, English learners, foster youth, and/or those with disabilities. Consideration of how resources are used to direct supports to these student populations is vital. It is also important that school districts are

clear about the use of both base, supplemental, and concentration funds as a way to meet the needs of targeted student groups, as well as the needs of the entire student population. These strategies may include investments in programs and supports from a school district's base and supplemental/concentration resources as well as strategically including state and federal resources to target support to lower-performing student groups.

Respond to Change

Another component of both increasing efficiency and effectiveness within school districts is the ability to respond to change. Yet, for a variety of reasons, school districts have not always been quick to respond to shifts in the demographics of schooling or reductions in available funding.⁴⁶ For example, school districts are subject to collective bargaining rules that may make it difficult to make expedient changes in staffing during periods of declining enrollment. In addition, reductions in enrollment may necessitate school mergers or even the sale of school district property, both of which can take considerable time and may be politically difficult as well as painful for the community. Consequently, school districts tend not to be particularly nimble when it comes to fluctuations in funding due to enrollment.

Use Data and Communication as Tools

There are several core underpinnings to many of the efforts that districts undertake to address budget challenges, including a strong focus on data collection and monitoring (both program and budget), and on continuous improvement, or measuring program effectiveness and making adjustments as needed. In addition, districts might benefit from focusing more on communication with the public and with existing teachers and staff about the districts' need to make difficult tradeoffs. Collective bargaining can be a contentious process in many districts, even during healthier budget periods. School districts will likely need to continue to communicate with the public and with employees about current budget challenges and about the implications for collective bargaining with teachers and other school site staff. (See the

Community Update from the Berkeley Unified School District sidebar as an example.) This communication can require a greater degree of transparency surrounding the budget, something that policymakers intended the Local Control and Accountability Plan to provide for the public, but has not been wholly achieved. Moreover, it often requires district leaders to be willing to make difficult choices, to be clear about the rationale for their decisions with staff and with the public, and to ensure that fiscal stewardship is prioritized in the district before the district is in fiscal crisis.

Communication with the public about the pension liability is likely to be particularly important for many districts. Pension costs are different from typical district spending because paying for pensions supports instruction only indirectly. Furthermore, pension plans are often complex, involving varying levels of member contributions, difficult-to-understand investment earnings and forecasts, and differing accounting and disclosure practices. Calculating pension expenses and assets is mathematically complex and involves a set of predictions regarding employee turnover and mortality, length of employee service, the frequency of early retirement, and future salary and compensation levels, as well as predictions about the future health of the economy. Yet, messages about the pension liability are increasingly highlighted in the news and in district budget conversations. Therefore, despite the complexity of communicating with the public about employee pensions, it will likely become increasingly important for district leaders to intentionally bring the public into these conversations and build understanding about the importance of pension costs to district finances.

46 <https://www.crpe.org/sites/default/files/crpe-better-together.pdf>

A PATH FORWARD

As this paper indicates, increases in funding under the Local Control Funding Formula (LCFF) were based on a commitment to returning school districts to pre-recession funding levels (2007/08), adjusted for inflation. The funding formula also provides some growth in revenue each year. And this accomplishment should be acknowledged and celebrated as California's continued commitment to the importance and power of public education for the state's future growth. However, this growth in revenues is not based on actual growth in the costs of operating a school or school district. This paper outlines how these growing costs and the associated growth in expenses required to simply maintain operations are placing increasing financial pressure on school districts — the effects of what can be called the Silent Recession.

At the same time, Governor Brown's January 2018 budget, which includes a proposal to fully fund the LCFF more quickly than previously planned, has the potential to provide some degree of relief for school districts as they face the looming budget crisis created by the rising costs outlined in this paper. Governor Brown's proposal also includes \$55 million for county offices of education to assist local school districts identified for assistance under the state's new accountability system (known as the "system of support"). This infusion

of funding to county offices of education may also increase their ability to provide fiscal support to local districts. In addition, the magnitude of the education system's pension liability problem has led to three legal cases that are headed to the California Supreme Court to challenge current pension reform law.

Yet, regardless of the outcome of the new budget or pending litigation, the Silent Recession will continue to constrain district budgets into the foreseeable future. Therefore, school district leaders must continue to engage in discussions internally and externally about how to most effectively and efficiently leverage their resources in order to realize their goals for improving student outcomes. The Silent Recession is likely to demand new strategies in order for school districts to be able to continue working toward creating the type of education system that all children deserve.

APPENDIX

Methodology

The development of this paper grew out of discussions among California school district and county budget and education services leaders, representing three school districts and two county offices of education, who were involved in WestEd’s Smarter School Spending Community of Practice (CoP) from February 2016 to June 2018, which was funded by the Bill and Melinda Gates Foundation. WestEd researchers began developing this paper by conducting a review of news articles outlining the fiscal pressures facing California school districts in August 2017. Next, researchers facilitated a more formal discussion among CoP members about the current budget challenges in their districts and counties. Following this discussion, WestEd researchers invited each of the members of the CoP to participate in a 45- to 60-minute interview about the most pressing budget challenges they were facing and the strategies they were employing to mitigate some of these rising costs. All members of the CoP participated in the interviews with the exception of one district, which opted instead to send in written responses to interview questions.

WestEd staff decided to expand the interview pool to include an additional group of chief business officers (CBOs) to gather greater insight into the most pressing issues facing school districts and to better understand the types of strategies that districts are employing to navigate these increased costs. Many of the CBOs were selected based on having worked with WestEd in the past and being considered by WestEd staff to take a reflective and strategic approach to budgeting. Other CBOs were selected in order to ensure that the sample of interviewees represented the full range of sizes, types, and regions of California school districts. WestEd sent invitations to 25 school districts and 3 county offices of education to participate in an interview. In response, budget and education leaders from a total of 17 school districts and 3 county offices of education, including CoP members, were interviewed for this paper. Most interviews were conducted with a single interviewee, but some were done in a small-group format with 2–4 interviewees.

For all of the districts that were invited to participate in the interviews — 25 districts total — WestEd staff analyzed the multiyear projections (MYPs) and annual budgets from June 2017. These budget documents are publicly available through the districts’ board meeting notes or the districts’ websites. Financial data available for the state through Ed-data.org was also used to supplement the analyses of district budgets. Specifically, it was used to determine increases in employee costs over time.

Because two particular types of districts — those with a high percentage of students from targeted student groups (high unduplicated student counts) and Basic Aid districts — tend to have higher revenues than other districts, WestEd researchers conducted an additional review of a sample of districts in each of these two categories. For districts with high unduplicated student counts, WestEd staff randomly selected 15 districts that had at least 70 percent of their student population consisting of students from targeted student populations (English learner students, low-income students, and foster youth). In the randomly selected sample of 15 such districts, the unduplicated student counts ranged from being 74 to 98 percent of total district enrollment. WestEd staff also randomly selected 15 districts from among those designated as Basic Aid districts, meaning that each district’s local property tax revenues exceed the amount that the district would receive from the state under California’s education funding formula. WestEd was not able to find the MYPs for all of the districts that were randomly selected for these samples in an initial round of selection, so WestEd staff randomly selected from the list again until enough districts with publicly available MYPs were selected.

Tables A1, A2, and A3 provide more details about the sample districts that were analyzed for this paper.

Limitations

Although the samples were selected to be representative, they might not fully represent all districts in California or in other states, particularly because the CBOs who were interviewed

were selected intentionally for their perceived approach to budgeting. Moreover, the sample of districts used to inform this paper is relatively small (California has nearly a thousand

school districts in all), and school district revenues and expenditures vary considerably from district to district based on many factors.

Table A1. Breakdown of sample by district size

| 2016/17 Enrollment | # of Districts |
|--------------------|----------------|
| 0–5,000 | 26 |
| 5,000–10,000 | 8 |
| 10,000–15,000 | 6 |
| 15,000–35,000 | 10 |
| 35,000+ | 6 |
| Total | 55 |

Source: <https://dq.cde.ca.gov/dataquest/>

Table A2. Increasing cost of CalSTRS and CalPERS

CalSTRS/CalPERS Unrestricted General Fund

| | CalSTRS | | | CalPERS | | |
|-------------|-----------------|-----------------|------------|----------------|----------------|------------|
| | 2016/17 | 2017/18 | % Increase | 2016/17 | 2017/18 | % Increase |
| District 2 | \$667,069.93 | \$1,049,749.66 | 57% | \$266,893.66 | \$370,620.90 | 39% |
| District 20 | \$9,980,861.00 | \$12,750,733.00 | 28% | \$2,936,764.00 | \$3,666,851.00 | 25% |
| District 8 | \$10,239,998.00 | \$12,566,764.00 | 23% | \$3,868,589.00 | \$4,169,333.00 | 8% |
| District 5 | \$16,939,690.00 | \$20,751,118.00 | 22% | \$6,727,263.00 | \$7,635,445.00 | 14% |
| District 23 | \$21,052,110.00 | \$25,288,797.00 | 20% | \$5,915,504.00 | \$6,770,560.00 | 14% |

| | CalSTRS | | | CalPERS | | |
|-------------|-----------------|-----------------|------------|----------------|----------------|------------|
| | 2016/17 | 2017/18 | % Increase | 2016/17 | 2017/18 | % Increase |
| District 14 | \$7,449,482.11 | \$8,859,756.30 | 19% | \$2,000,509.61 | \$2,378,787.38 | 19% |
| District 4 | \$5,203,619.41 | \$6,121,133.00 | 18% | \$1,677,284.33 | \$1,961,259.28 | 17% |
| District 12 | \$14,566,684.00 | \$17,122,664.00 | 18% | \$3,498,953.00 | \$3,953,707.00 | 13% |
| District 22 | \$3,207,061.62 | \$3,733,877.34 | 16% | \$1,132,229.60 | \$1,305,041.95 | 15% |
| District 1 | \$16,546,872.34 | \$19,065,592.46 | 15% | \$3,642,961.55 | \$4,219,295.48 | 16% |
| District 19 | \$7,299,576.00 | \$8,409,450.00 | 15% | \$2,112,022.00 | \$2,951,373.00 | 40% |
| District 15 | \$5,182,361.10 | \$5,963,867.00 | 15% | \$1,454,281.05 | \$1,627,884.00 | 12% |
| District 13 | \$5,576,288.00 | \$6,386,890.00 | 15% | \$1,170,226.00 | \$1,390,380.00 | 19% |
| District 17 | \$31,601,497.00 | \$36,123,824.00 | 14% | \$6,644,948.00 | \$7,819,341.00 | 18% |
| District 3 | \$10,206,634.00 | \$11,591,691.00 | 14% | \$2,862,099.00 | \$3,392,642.00 | 19% |
| District 11 | \$2,807,544.00 | \$3,182,321.00 | 13% | \$1,159,622.00 | \$1,356,564.00 | 17% |
| District 9 | \$11,556,000.00 | \$13,089,000.00 | 13% | \$2,400,000.00 | \$2,697,000.00 | 12% |
| District 16 | \$5,034,398.00 | \$5,701,553.00 | 13% | \$1,705,323.00 | \$1,960,994.00 | 15% |
| District 10 | \$27,518,581.86 | \$30,796,891.22 | 12% | \$6,432,349.53 | \$7,939,353.89 | 23% |
| District 25 | \$785,849.36 | \$874,153.37 | 11% | \$317,389.96 | \$384,245.00 | 21% |
| District 24 | \$5,818,721.28 | \$6,458,587.31 | 11% | \$2,648,941.29 | \$3,202,993.03 | 21% |
| District 21 | \$4,860,785.00 | \$5,368,041.00 | 10% | \$1,324,637.00 | \$2,026,592.00 | 53% |
| District 6 | \$12,279,725.00 | \$13,507,837.00 | 10% | \$3,208,346.00 | \$4,132,212.00 | 29% |
| District 7 | \$1,165,441.29 | \$1,116,119.60 | -4% | \$268,978.05 | \$297,474.94 | 11% |
| District 18 | \$1,713,802.17 | \$816,400.00 | -52% | \$439,813.47 | \$482,200.00 | 10% |

Source: Multiyear budget projections from sample districts

Table A3. Net increase/decrease in fund balances for unrestricted funds

| | # of districts | % of districts that project to deficit spend in all 3 years | % of districts that project to deficit spend in 2 of next 3 years | % of districts that project to deficit spend in 1 of next 3 years |
|---|----------------|---|---|---|
| Districts in the general sample | 25 | 52% | 16% | 16% |
| Districts with high unduplicated student counts | 15 | 40% | 13% | 13% |
| Basic Aid districts | 15 | 67% | 13% | 7% |

Source: Authors' analysis of sample districts' multiyear projections

APRIL 2018



SILENT RECESSION

WHY CALIFORNIA SCHOOL
DISTRICTS ARE UNDERWATER
DESPITE INCREASES IN FUNDING

Kelsey Krausen
Jason Willis