Is There a "Fiscal Cliff" on the Horizon for California School Districts?

Planning for Financial Sustainability in an Uncertain Time

Kelsey Krausen, Ruthie Caparas, Patrick McClellan, Jason Willis, and Alyssa Perez

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Introduction

Although California's K–12 per pupil funding has long lagged behind that of other states, California schools have experienced notable boosts in per pupil funding in the past decade (Auditor of the State of California, 2019; Hahnel et al., 2020). Thanks to unexpected surpluses in recent years' state budgets, California's Proposition 98 funding level (comprising state and local sources) leapt from just below $14,000 per K–12 student in 2020/21 to roughly $17,000 per student in 2021/22 and 2022/23 (Legislative Analyst's Office, 2022a) and roughly $17,500 per student proposed for 2023/24 (California Department of Education [CDE], Governmental Affairs Division, 2023). In addition, California schools received more than $26 billion in federal COVID-19 pandemic relief funding from the CARES Act and American Rescue Plan, equivalent to an average of roughly $4,300 in one-time federal funds per student (Fensterwald, 2021a).

Collectively, this state and federal postpandemic windfall has created a unique opportunity for the state's K–12 schools—which are used to constrained resources—to address unfinished learning as a result of the pandemic and to spearhead innovative educational programs that can have lasting and meaningful impacts on outcomes for children and youths.

However, most of the new state and federal education funding is available only as a one-time or short-term allocation rather than an ongoing new source of revenue for schools and school districts. Accordingly, local education leaders are cautious about making long-term education program or staffing commitments, as heavy reliance on these time-constrained funding streams to initiate new programs and expand old ones has the potential to endanger a district's fiscal health.

Nevertheless, many local education leaders have been forced to adopt a "build-the-plane-as-you-fly-it mentality"—that is, focusing on addressing the urgent, pandemic-fueled needs of students, without a clear financing plan in place for the long term, and hoping that policymakers will continue to provide new revenue sources to sustain schools' expanded services in the years to come. However, short-term investments without intentional, long-term budget planning are frequently not sufficient to generate meaningful changes (Dynarski, 2017). Many local leaders and their communities will want to sustain the programs, services, and positions they are currently funding with relief dollars beyond the grant period. As a result, state and district leaders will need to begin actively planning for sustainability to ensure they are investing in long-term system improvement.

> ***"Short-term investments without intentional, long-term budget planning are frequently not sufficient to generate meaningful changes."***

This paper explores the topic of funding sustainability within California K–12 education systems—particularly amid the influx of pandemic relief funding—delving into how education finance leaders, decision-makers, and other education partners across the state view the challenges, opportunities, and solutions related to funding sustainability during this time of longer term funding uncertainty. The paper begins with a description of some key fiscal challenges that the state and districts have faced from prepandemic times until the present. Next, the paper includes an analysis of multiyear budget data from a sampling of California districts to examine the stability of districts' budgets and their projected fiscal health in upcoming years. The paper also offers insights from interviews with local education leaders to illuminate how those in the field have been approaching the topic of funding sustainability and the use of short-term funds. The paper concludes by presenting local strategies and recommendations for state leaders on how to move toward long-term, sustainable funding for systemic change.

Key Findings

- Fiscal pressures that many districts faced prior to the pandemic, such as declining enrollment and the rising costs of staff and other core expenses, continue to threaten districts' fiscal health. In some cases, the pandemic exacerbated these challenges.
- District leaders report that districts have invested most of their pandemic relief funds in efforts to meet students' immediate, heightened needs during and after the pandemic.
- District leaders report barriers to investing pandemic relief funds in long-term system improvement efforts, and they anticipate that continuing to meet students' heightened postpandemic needs will require new ongoing funding.
- Multiyear budget projections show wide variation in sampled districts' projected fiscal health, but on average, they project deficit spending and staff cuts on the horizon.
- However, budget data and interview data suggest that many districts may face more of a gradual "fiscal slope" than a "fiscal cliff," likely due to state-level actions to promote year-to-year local budget stability as well as district-level anticipation that pandemic relief funds will soon be gone.
- Districts leaders report employing a range of strategies to avoid a fiscal cliff.
- Given districts' reported barriers to using short-term funds for long-term systemic improvement, state policymakers may want to adjust some of the ways in which they distribute new funds to California schools and districts when funding is available.

Research Questions and Methodology

Through a survey and interviews with K–12 education leaders, as well as descriptive analyses of district budgets, this paper explores the following questions:

- Is there a "fiscal cliff" on the horizon? If so, how quickly is it coming?
- What are the barriers to funding sustainability?
- What strategies are local education leaders employing to address fiscal sustainability?

To answer these questions, the research team began with a review of the existing literature on education funding sustainability, particularly within the California context. The team then conducted mixed-methods research using three separate samples of districts: (a) a sample of 78 districts whose finance leaders responded to a survey, (b) a sample of 13 districts whose finance leaders or county office of education (COE) leaders participated in interviews, and (c) a sample of 50 districts whose public budget documents the research team analyzed.

First, in spring of 2022, the research team surveyed district finance leaders representing 78 school districts across California. Districts' chief business officers (CBOs) were invited to participate in the survey through regional CBO email lists. Survey questions focused on how district leaders were thinking about sustaining investments made with short-term state and federal funds.

Next, in summer of 2022, the research team conducted virtual interviews with district and COE finance leaders representing 13 school districts across different regions of California. The interviews used a semistructured protocol that focused on (a) defining funding sustainability, (b) navigating barriers to funding sustainability within the California context, (c) balancing fiscal priorities and program options with the influx of short-term funding streams, and (d) collecting impact data as evidence to understand program effectiveness and adjust budget planning accordingly.

The interviewed finance leaders were selected based on recommendations from veteran district finance leaders who identified these districts as taking a particularly thoughtful approach to the use of short-term funds. As a result, these districts' experiences likely do not reflect the diversity of districts' experiences across the state; rather, these interviews aimed to highlight the experiences and fiscal planning strategies of districts whose leaders were thinking about fiscal sustainability when planning for the use of pandemic relief funds.

Finally, to gain a glimpse into California districts' current and near-future financial situations, the research team analyzed publicly available district budgets (which included multiyear projections) for a sample of 50 districts across the state. To create a sample that would most accurately represent school districts across the state, the research team divided the full population of districts into terciles by enrollment size. Next, the team randomly selected 15, 20, and 15 districts from the first, second, and third terciles, respectively, to comprise the analytical data set. By triangulating budget data with qualitative data collected through the survey and interviews of district finance leaders, the research team could more thoroughly unpack the projected stability of districts' budgets.

A central question to the quantitative analysis was whether districts are financially bracing for the expiration of short-term state and federal funding in upcoming years. To answer this question, this paper examines a series of trends in current and projected General Fund balances, Local Control Funding Formula (LCFF) revenue, and average daily attendance (ADA), among other financial data.

Key Challenges to California Schools' Funding Sustainability

This section highlights the key challenges to funding sustainability in California, based on existing literature, public data, and the research team's interviews. Although most of these challenges preceded the pandemic, interviewed finance leaders still identified many of these same challenges as top concerns. In fact, leaders consistently reported that these challenges pose greater threats to their districts' budgets than does the impending loss of short-term funding.

Continued declining enrollment and growing absenteeism fueled by school-adjacent factors

Since education funding in California is directly tied to ADA,[1] current and projected enrollment declines, alongside heightened rates of absenteeism, pose a considerable threat to the stability of schools' base funding and, in turn, their ability to maintain essential student-serving programs (Hoeven, 2021; Krausen & Willis, 2018). California's public school enrollment has been declining for years, and declines have become even sharper since the beginning of the pandemic (Hong, 2022). In 2021/22, enrollment dropped below 6 million students for the first time in over two decades (Fensterwald & Willis, 2022). Potential contributing factors include nationwide declines in birthrates, growing net out-migration to other states, and lower international immigration, as well as families' pandemic-fueled choices to delay kindergarten, homeschool their children, or enroll in private schools (Lafortune & Prunty, 2022). Over the next decade, California's enrollment declines are projected to accelerate, with statewide enrollment expected to fall 11.4 percent by 2031, with Los Angeles and the Bay Area experiencing the greatest losses (Fensterwald, 2021b). All interviewed leaders from LCFF-funded districts identified declining enrollment as one of the top fiscal challenges their districts face.

1 California is among the seven states (alongside Idaho, Texas, Illinois, Kentucky, Mississippi, and Missouri) that calculate funding allocations using ADA.

In addition, the 2022 California School Dashboard data show extremely high rates of chronic absenteeism—30 percent of K–8 students statewide, compared to 10.1 percent in 2019 and 9.0 percent in 2018 (Merod, 2021). Pandemic-fueled factors included some that were largely temporary—such as quarantine requirements, illness, and fear of illness—as well as factors with more long-term effects, such as heightened mental health challenges, disengagement from school, and disruption in daily attendance routines (Jones, 2021). Many of the interviewed local leaders reported that their districts continued to experience heightened student absenteeism in fall 2022.

A few interviewed leaders also reported that because California launched a Universal Free Meals Program in 2022/23, their districts now find it more difficult to persuade families to fill out the free and reduced-price meal eligibility form, as all California students now have access to free meals regardless of whether their families submit the form. These leaders reported that, as a result, their districts have seen slight declines in their proportions of unduplicated pupils,[2] translating to a loss in supplemental and concentration LCFF funding. Indeed, statewide, California's proportion of students whose family income made them eligible for free and reduced-price meals fell from 59.3 percent in 2019/20 to 57.8 percent in 2021/22 (CDE, Data Reporting Office, 2023).

Rising costs of core fiscal obligations, including staffing and special education

Prior to the pandemic, the cost of maintaining programs had already been rising steeply due to rising staffing-related costs—particularly rising pension liabilities, rising staff health care costs, and the need for higher salaries to recruit and retain staff (Krausen & Willis, 2018). In recent interviews, leaders reported several reasons why the pandemic has driven salaries even higher, including staff shortages, difficulty retaining staff in the aftermath of the pandemic for reasons such as staff burnout, rising costs of living, and increased bargaining pressure given the challenging postpandemic environment and the influx of pandemic relief funding. Interviewed leaders described the rising cost of staffing as one of their top budget concerns.

The additional costs of providing special education and related supports to students with individualized education programs (IEPs) has also been increasing for years, and, by federal law, districts generally cannot reduce these expenditures (Willis et al., 2020). Furthermore, unlike funding for students in other higher needs groups, California's funding for students with IEPs is allocated based on overall ADA, not the number of students belonging to that group. In recent interviews, some leaders reported that in addition to the prepandemic trend of rising special education costs, their districts' numbers of students with IEPs have increased more steeply in the aftermath of the pandemic.

Although the state's per pupil base funding had been increasing each year for nearly a decade prior to the pandemic, the increase in funding had not kept pace with the increase in core costs; a 2018 WestEd report shed light on these "silent" rising costs (Krausen & Willis, 2018). Prior to the pandemic, many district leaders faced tough decisions on whether to divest funding from critical infrastructure, including staffing, to keep their finances afloat. On top of those costs that have been rising for years, the more recent cost pressure of inflation, which hit record highs in 2022 (Strozewski, 2022), now weighs down districts' budgets even further (Jacobson, 2021; Seiler, 2022).

Volatility of California's revenue structure

State education funding is heavily reliant on General Fund revenue, which draws from income taxes, and income tax revenue tends to track economic growth and decline (Rueben et al., 2020). As a result, education budgets are highly vulnerable to economic fluctuations. For example, during the Great Recession, California saw a notable drop in income tax revenue and General Fund revenue, leading to a multiyear dip in per pupil funding (Hahnel, 2020). School district leaders expressed concern about a potential recession in the coming years—a concern that has been echoed

2 *Unduplicated pupils* are those students who generate more state funding under the LCFF. These include students who are eligible for free and reduced-price meals, students who are English learners, and students in foster care.

by other state and national budget leaders (Walters, 2022). Although the state has an education “rainy day fund” (the Public School System Stabilization Account, also known as the Proposition 98 Reserve) that helps the state stabilize school funding during economic declines, some district leaders reported that this fund comes with its own challenges, explained further in the “Obstacles to Investing Pandemic Relief Funds Strategically” section of this paper.

Tension around where to direct additional state resources

Debates over K–12 funding in California have long centered on how to allocate funding across districts, schools, and students statewide. California’s current funding formula, the LCFF, distributes base funding for all students as well as supplemental and concentration grants for each student who is an English learner, in foster care, and/or economically disadvantaged. However, inequities across districts, schools, and student outcomes persist. Consequently, some have called for the distribution of funding to be more heavily weighted toward the supplemental and concentration grants for higher need students (Hahnel & Humphrey, 2021).

Furthermore, although each district must describe in its Local Control and Accountability Plan (LCAP) how supplemental and concentration grants will be used to increase or improve services for the students that generated the funding, spending decisions are made at the district level, not the school level. A 2021 PPIC study found that, on average across California, for each dollar of supplemental and concentration funds generated by a school, the school’s spending increases by only 55 cents. Based on this finding, the study author suggests, among other recommendations, that policymakers consider “a funding mechanism based on school site need” rather than just the overall district need (Lafortune, 2021). The Governor’s January 2023/24 budget proposal includes such a step: it proposes funding for an “Equity Multiplier,” which would provide additional per pupil funding for every school serving up to 8th grade with at least 90 percent of students qualifying for free lunch and every high school with at least 85 percent of students qualifying for free lunch. Whether this new funding source will be included in the final budget is not confirmed, but it signals a potential shift in the state’s approach to allocating some funds to the school level alongside the district level.

Greater student needs and community expectations

Myriad empirical studies have documented the rise in anxiety, depression, and other mental and behavioral health conditions among PK–12 students as a result of the COVID-19 pandemic (Naff et al., 2022). Interviewed leaders identified students’ heightened postpandemic needs—and community expectations for how schools will continue to address them—as a new and notable challenge. They consistently noted that they did not expect the heightened levels of student needs in the aftermath of the pandemic, particularly the need for mental health support, to disappear after funding expired. As such, they noted that staff, families, and other education partners will expect schools to continue meeting these heightened and sometimes still unmet needs. One leader also mentioned that although their district was grateful for the relief funds, the influx of new, temporary funding “masks” the district’s current fiscal concerns around declining enrollment and other pressures, making it more difficult for board members and other education partners to agree to a cautious budgeting approach.

Fiscal resiliency in the face of future disruptions

The COVID-19 pandemic has been the most recent, and one of the greatest, shocks to the education system, but it will not be the last. The pandemic thus underscores the need for districts to be prepared for future disruptions, escalations of student need, and funding instability. Although the historic windfall of state and federal K–12 pandemic relief funding can serve as a lifeline for districts to address immediate, pandemic-driven needs, local leaders will need to thoughtfully consider how to use it sustainably and avoid saddling their districts with additional long-term fiscal obligations given that state revenues are unlikely to sustain the same level of investment in K–12 education in the years to come.

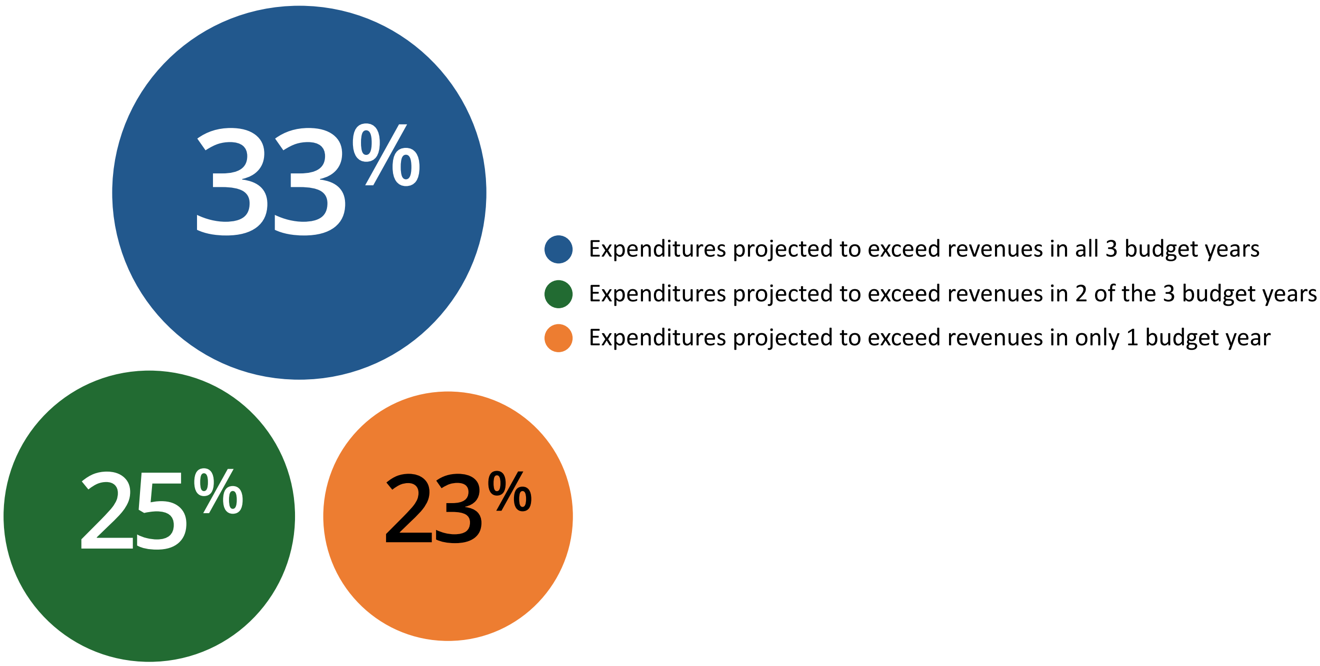
Current and Projected Fiscal Health of California School Districts: Is There a Fiscal Cliff?

As described earlier, to answer this paper's central question—*Is there a fiscal cliff on the horizon?*—the research team collected data from three separate sets of school districts: a small sample of interviewed districts, a larger set of districts whose finance leaders responded via survey, and a separate set of districts whose budgets were analyzed. The interviews and budget analyses each yielded information on their respective districts' current and projected fiscal health, and both indicate that current and projected fiscal health varied considerably across districts. However, on average and across most districts, the research team made several observations, as described in the following sections.

Districts project an increase in deficit spending and declining General Fund balances

One of the clearest trends from the budget analysis is that many districts are currently spending, or will soon be spending, more than they receive in total annual revenue. When such deficit spending occurs, districts dip into their General Fund balances to cover the difference or make cuts in expenditures. According to districts' multiyear projections, in each of the upcoming 3 years, over half of the sampled districts expect to tap into their General Fund balance to cover deficit spending. Figure 1 displays how many of these districts projected deficit spending for 1, 2, or all 3 of the analyzed budget years.

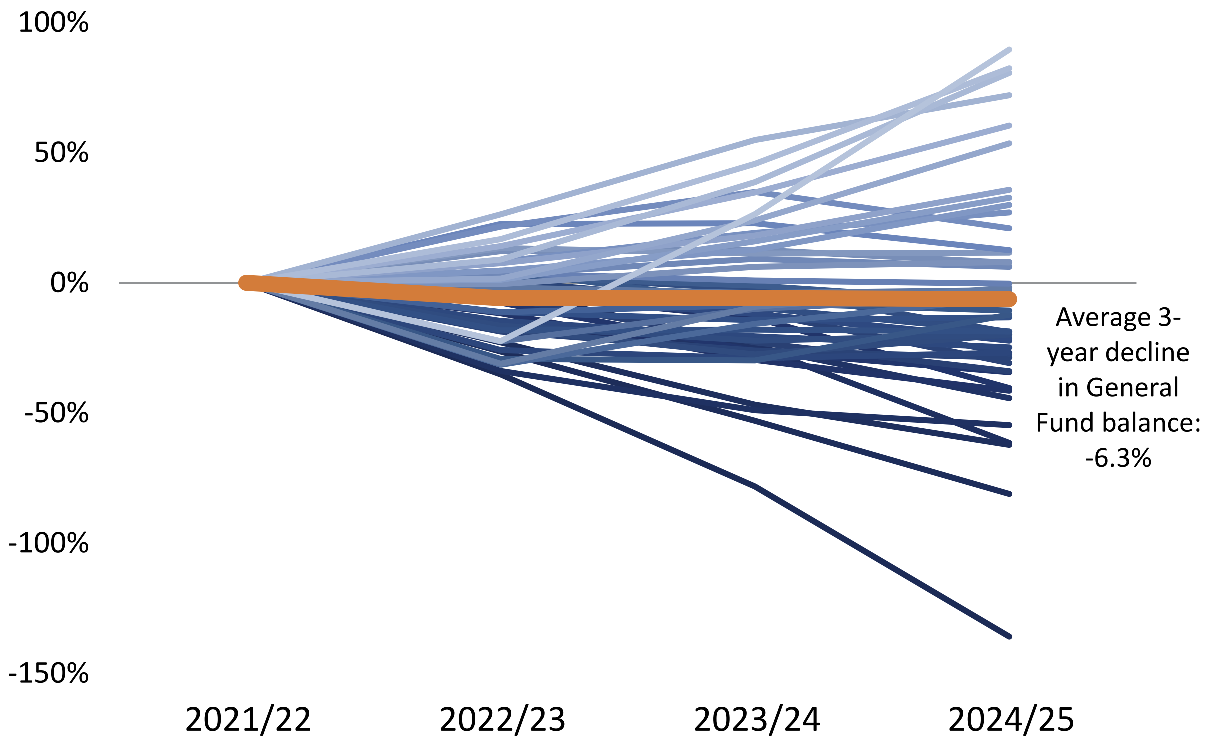
Figure 1. Proportions of Sampled Districts Whose Expenditures Are Projected to Exceed Revenues in 1, 2, or All 3 of the Analyzed Budget Years



Source: Author calculations using sampled districts' public multiyear budget data.

As a result of this projected deficit spending, on average, districts in the sample projected that their General Fund balances in 2024/25 would be 6.3 percent lower than in 2021/22. Figure 2 displays each district's change in General Fund balance during this period. Districts that projected declining balances (two thirds of the sampled districts) are shown in dark blue, while those that projected increasing balances are shown in faded blue.

Figure 2. Change in Sampled Districts' General Fund Balances From 2021/22 to 2024/25



Source: Author calculations using sampled districts' public multiyear budget data.

The projected increase in deficit spending appears to be at least somewhat linked to the gradual expiration of short-term funding in upcoming years. Compared to their 2022/23 levels, on average, sampled districts' revenues are projected to decline by 3.8 percent in 2023/24 and by another 0.9 percent in 2024/25. In other words, on average, total revenues for districts in the sample will have declined by nearly 5 percent over the next 2 budget years.

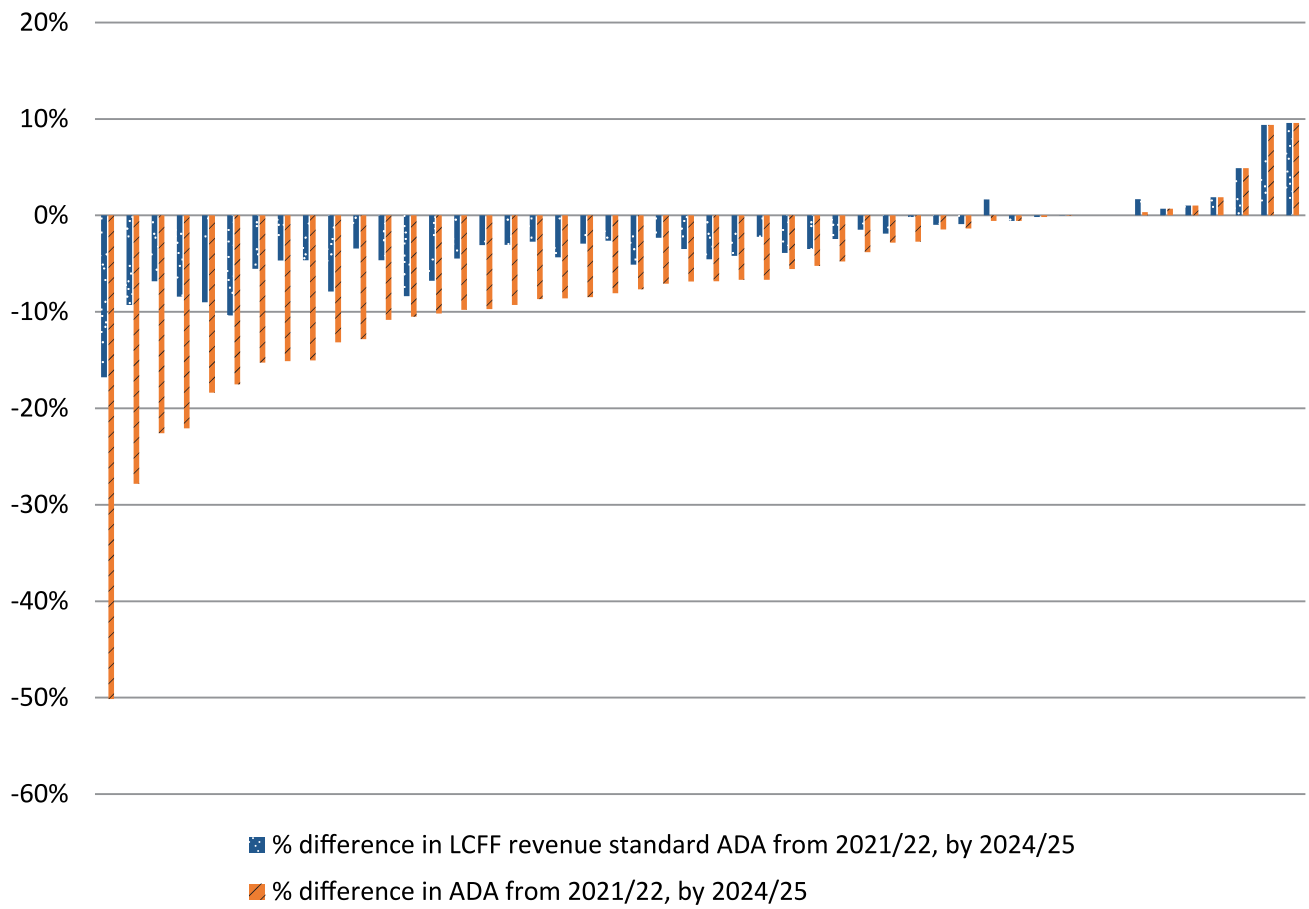
LCFF's new ADA calculation, using a 3-year average, offers greater budget stability

As districts grapple with the dual pressures of declining enrollment and expiring short-term funds, the research team found it notable that General Fund balances are projected to decline fairly gradually, as shown in Figure 2—that is, it is more of a fiscal slope than a fiscal cliff. Based on both interview data and an analysis of districts' projected revenue from ADA, a contributing factor may be the recent statewide policy change regarding how the LCFF uses ADA to calculate district apportionments. The 2022–2023 Budget Act allows districts to calculate LCFF funding using an average of the 3 most recent years of ADA if that average is greater than the current or prior year's ADA (CDE, n.d.-a).

Interviewed leaders noted that this provision was very helpful in stabilizing districts' budgets, and the research team's budget analysis highlights its impact. For each district in the budget analysis sample, Figure 3 displays the district's projected change in ADA (in orange) compared with the change in ADA that the district expects being able to report for LCFF apportionment purposes (in blue). For example, the district projecting the greatest decline expects a 50 percent decrease in actual ADA over the 3 years; however, this district projects that its ADA for LCFF apportionment purposes (its "LCFF revenue standard ADA") will only decrease by 17 percent.

On average, districts in the sample project a 7 percent decline in ADA between 2021/22 and 2024/25 but only a 3 percent decrease in LCFF revenue over this period. Although this relative stability presents some good news for districts, it is important to note that their major declines in ADA will affect district revenues eventually. Furthermore, the fact that the average district projects a small increase in LCFF revenue, despite declining enrollment, indicates that districts assume the state will continue increasing LCFF per pupil funding over time. Although the governor's January 2023 budget proposal suggests this trend will continue for 2023/24, districts' estimates of any potential per pupil increases beyond that may not be accurate.

Figure 3. Each Sampled District's Projected Change in LCFF Revenue Standard ADA Between 2021/22 and 2024/25 and Projected Change in Actual ADA During the Same Time Frame



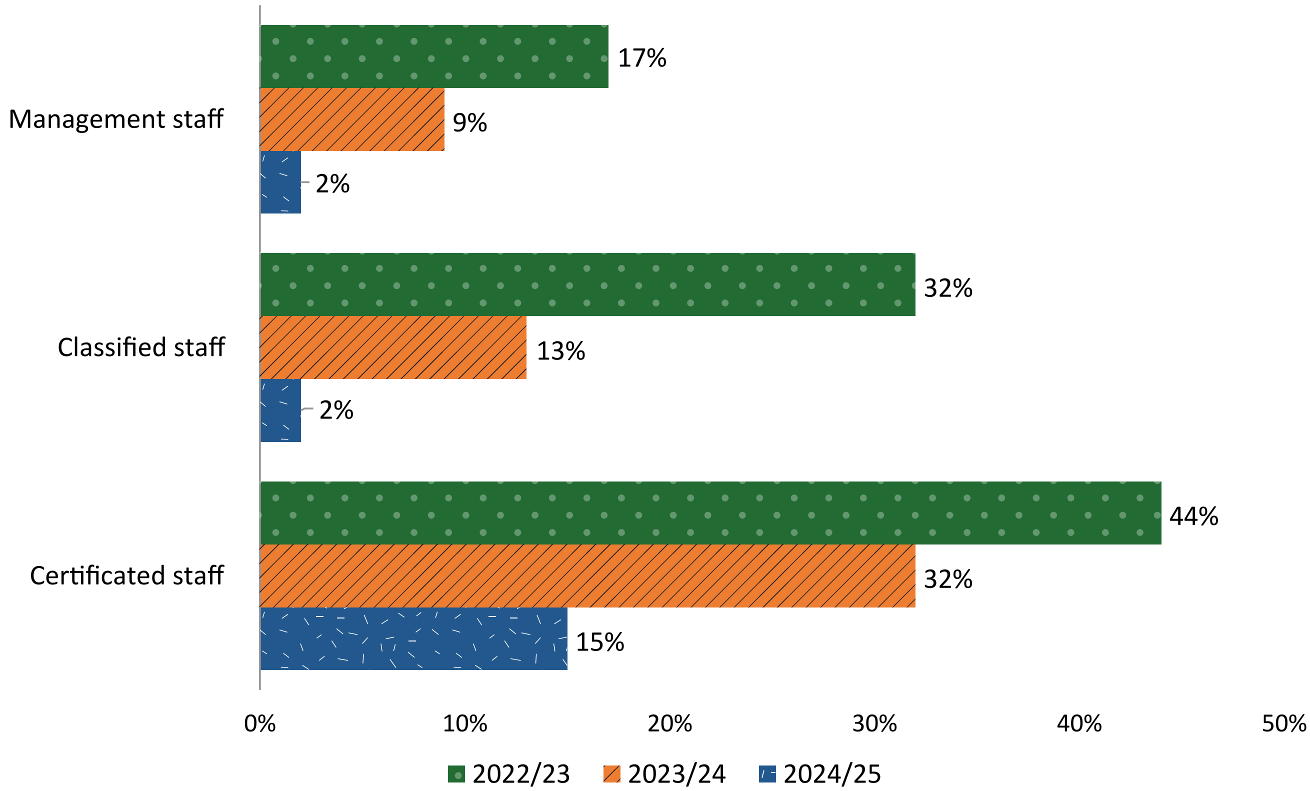
Source: Author calculations using sampled districts' public multiyear budget data.

Districts' costs per employee are rising, and districts anticipate having to cut staff in upcoming years

According to the budget analysis, many districts expect their required contributions to staff retirement funds—the State Teachers' Retirement System (STRS) and Public Employees' Retirement System (PERS)—to continue to rise, and districts expect to allocate a larger portion of their unrestricted expenditures toward salaries and benefits in the coming years. As described earlier, interviewed leaders also cited this as one of their top budget concerns.

Presumably in response to rising costs (including per employee staff costs), projected declines in revenue, and enrollment declines (which could potentially reduce staffing needs), a large proportion of the districts sampled in the budget analysis expect to reduce their staffing in the coming years. Figure 4 displays the proportion of sampled districts that projected reducing their numbers of certificated, classified, or management staff from one year to the next between 2022/23 and 2024/25. Almost half of sampled districts expected to reduce the number of certificated staff for 2022/23, and another third of districts expect to do so the following year. Fewer districts are expecting to reduce classified or management staff head counts. Roughly a third of all sampled districts anticipated reductions among classified staff for 2022/23, while only 17 percent of sampled districts anticipated declines in the number of management staff. This is to be expected, given that certificated staff comprise by far the largest proportion of total school district staff, and management staff comprise the smallest.

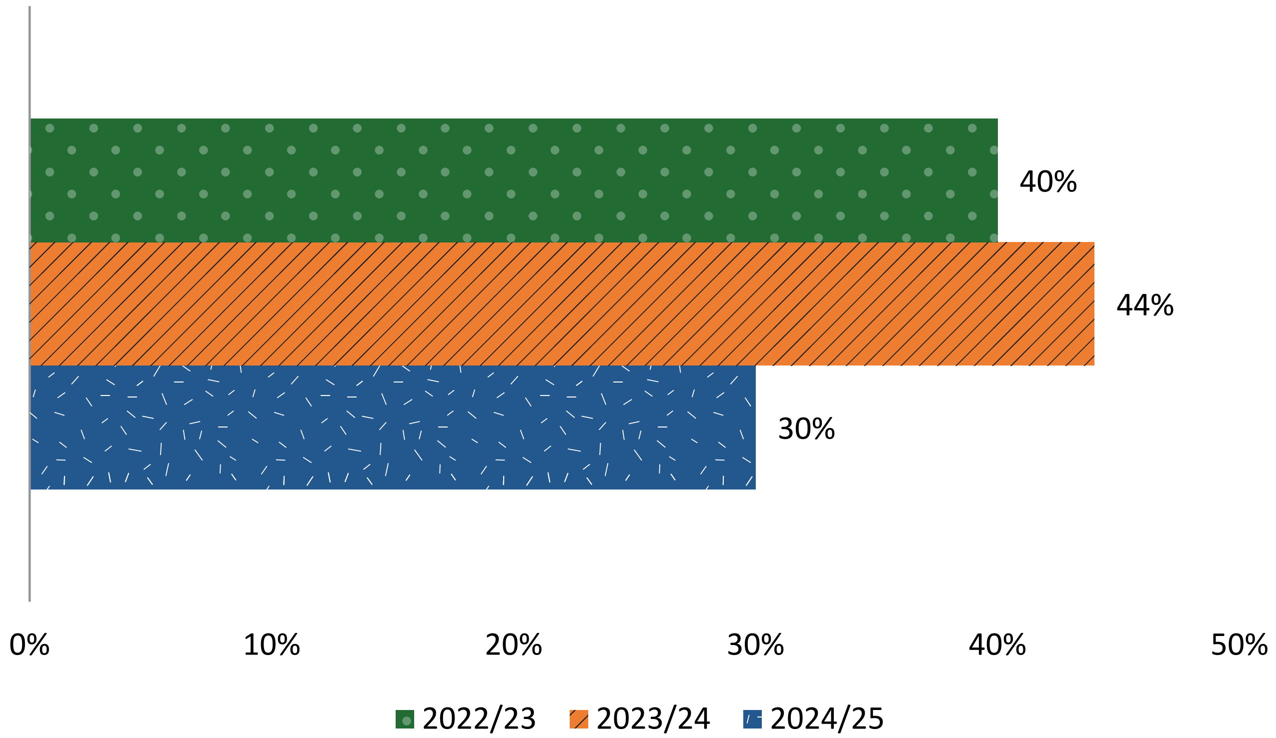
Figure 4. Percentage of Sampled Districts Whose Budgets Projected a Decline in the Number of Staff From the Prior Year, by Staff Type and Year, for 2022/23, 2023/24, and 2024/25



Source: Author calculations using sampled districts' public multiyear budget data.

Figure 5 shows the proportion of districts that project year-over-year increases in the share of their unrestricted expenditures that will be spent on salaries and benefits during this same time frame, even with planned staff reductions.

Figure 5. Percentage of Sampled Districts Whose Budgets Projected an Increase in the Percentage of Expenditures Dedicated to Salaries and Benefits Compared With the Prior Year, for 2022/23, 2023/24, and 2024/25



Source: Author calculations using sampled districts' public multiyear budget data.

Overall, the budget analysis suggests that typically, across the sample, districts project declining fiscal health over the next several years. However, with the new method of ADA calculation and with districts' apparent anticipation of rising costs and declining revenues, the analysis suggests that this decline will be gradual. Furthermore, additional short-term funding from the state, including nearly $8 billion in funding through 2027/28 from the Learning Recovery Emergency Block Grant, combined with the staggered timelines of pandemic relief funds, will result in a gradual tapering off of funding. The gradual phaseout of short-term funding, described later in this paper, likely also contributes to districts' anticipated ability to avoid a steep, imminent fiscal cliff.

Variation across districts' budget projections: Which factors are associated with healthier budgets?

Although most of the districts in the surveyed sample, interviewed sample, and budget analysis sample expected heightened fiscal challenges after short-term funding dries up, some districts projected healthier and more stable budgets than others. Interview data offered insight into some of the factors that may contribute to the variation in districts' budgets.

Based on interview data, districts that reported strong or stable financial situations had at least one of two characteristics in common: (a) a finance leader who described that the district's collective leadership has long taken a conservative, cautious approach to budgeting and (b) status as a Basic Aid district, meaning that the district receives enough funding via local property taxes that it does not receive LCFF state funding.

Interviewed leaders noted that Basic Aid districts have a significant advantage when it comes to declining enrollment. Because Basic Aid districts' funding, unlike LCFF funding, is not based on ADA, these districts' funding does not decrease when enrollment declines; in fact, their funding per pupil increases, as their flat amount of property tax revenue is then spread over a smaller number of students. Only a small proportion of California's districts—around 11 percent (CDE, n.d.-f)—qualify as Basic Aid districts.

Looking ahead to near-future years, most interviewed leaders (from both Basic Aid and LCFF-funded districts) predicted that their districts would be in similar financial situations as prior to the pandemic. One leader mentioned that pandemic relief funds allowed the district to postpone layoffs and cuts for a few years, but no leaders predicted that the short-term funds would have a long-term positive impact on their district's fiscal health. Leaders from districts whose budgets were declining prior to the pandemic predicted that their budgets would continue to worsen in future years.

How Districts Have Invested Pandemic Relief Funds

In order to understand how pandemic relief funds are impacting districts' current fiscal outlooks and near-future projections, the WestEd team interviewed district leaders about how they have been spending pandemic relief funds and how the short-term nature of relief funding has impacted their plans for fiscal sustainability. Although interviewed leaders did not see the recent short-term funds as having a long-term positive impact on their districts' fiscal outlooks, each leader expressed gratitude for the funds and described the funds' value in meeting students' immediate, pandemic-driven needs. The research team asked local leaders to describe their districts' use of pandemic relief funds through three broad categories: (a) pandemic response and reopening of schools, (b) learning recovery, and (c) investments in longer term system improvement.

Pandemic response and reopening of schools

Interviewed leaders reported that their districts have been using most or all of the pandemic relief funding for the first two categories, focusing on students' most urgent needs. Expenditures in the first category—pandemic response and reopening of schools—included resources for virtual learning, such as one-to-one devices and at-home internet connectivity for students, classroom technology for teachers, and professional development on virtual learning. Once in-person instruction resumed, expenditures in this category included portable sinks, additional cleaning supplies and janitorial staff, personal protective equipment, and other measures for health and safety. One leader also described temporarily expanding their teaching staff by bringing in a large number of paraprofessionals, which enabled them to split each class into two groups, with one group learning indoors while the other learned outdoors.

Learning recovery

According to interviewed leaders, the second category—learning recovery—has accounted for the greatest share of pandemic relief expenditures. Such investments focus on addressing both the academic and the heightened social–emotional needs of students in the aftermath of the pandemic. Specifically, such academic supports have included expanded learning time (e.g., before- and after-school programs, summer school), tutoring, and interventionists, while social–emotional supports have included additional counselors, psychologists, social workers, and family engagement specialists. Leaders estimated that 50 to 80 percent of short-term funds were dedicated to such resources.

Longer term system improvement

When asked about using short-term funds to invest in long-term improvements, leaders shared some examples of short-term expenditures that they anticipate will provide ongoing benefits. These tended to be investments in physical resources such as equipment or facilities upgrades. For example, they shared that investments in virtual learning infrastructure, including student devices, classroom technology, and software, will continue to provide value into the future. Several also described upgrading school HVAC systems and purchasing air filtration equipment. One leader reported using short-term funds to cover the start-up costs of a new Career Technical Education (CTE) program, and another described building outdoor learning spaces that school programs can continue to use.

Aside from short-term investments in such physical resources, a few leaders described one-time investments in staff, such as professional development on virtual instruction, return-to-school bonuses to retain staff and boost morale, and sign-on bonuses to attract new staff.

When asked about larger scale system improvement, leaders pointed to enhancements in districts' support for students' academic and social–emotional needs—for example, expanded learning, academic interventions, and additional mental health staff—as holding the potential for long-term system improvement if districts were to have sufficient ongoing funds to sustain them.

Obstacles to Investing Pandemic Relief Funds Strategically

Although some opportunities may exist for using short-term funds strategically to spur system improvement that is both long-term and sustainable, interviewed leaders described several factors that hindered districts' ability to do so.

One leader noted that such strategizing is difficult during normal circumstances but far more difficult during a pandemic. The leader shared, "I think it's particularly difficult now because of the confluence of so many different pressures, [including] the timelines on the funding, the expectation that we fix everything that has gone wrong during the pandemic immediately, [and] the new carryover requirements in the LCAP."

The carryover requirements, which several districts mentioned, refer to the law that when the state's Proposition 98 Reserve (the "rainy day fund") meets a certain threshold, school districts' local reserves (General Fund balances) cannot exceed 10 percent of their annual expenditures.[3] State budget conditions in 2020/21 and 2021/22 triggered this rule for the 2022/23 fiscal year (Legislative Analyst's Office, 2022b). Interviewed leaders identified this cap as a barrier to longer term budget planning because it forces districts to spend funds immediately even if this is not the most effective use of their funds and even if they do not yet have plans in place for how to spend them.

In addition, leaders described several logistical barriers that impeded their districts' ability to invest funds as strategically as possible. These barriers included the following:

- **Difficulty implementing spending plans due to staff shortages and supply chain issues:** Several leaders reported that due to statewide shortages of qualified staff, their districts struggled to recruit all the necessary staff to fully implement their planned programs. One leader pointed out that many school districts across California have been trying to hire additional staff for the same types of positions, such as school counselors, and so this increase in demand has exacerbated staff shortages further. Another leader noted that supply chain issues also presented a barrier to investing pandemic relief funds on the district's original timeline.

3 This law, from *Education Code* Section 42127, does not apply to Basic Aid districts or small school districts with ADA below 2,501 students.

- **Specific funding program requirements:** Although much of the pandemic relief funding had substantial flexibility in its allowable uses, some grants carried specific requirements. For example, the Expanded Learning Opportunities Program required that districts' school days extend to at least 9 hours through expanded learning and that districts offer at least 30 additional, 9-hour days of educational programming beyond the regular school calendar (e.g., over the summer). Several leaders reported that such requirements were difficult to implement, particularly given staffing shortages and a short planning timeline. Regardless of the level of flexibility around the use of funds, all of the different funding sources required districts to report how the funds were used, creating an additional administrative burden for districts.
- **Difficulty aligning the large number of funding streams:** Several interviewed leaders reported that receiving funds from a large number of separate pandemic relief funding streams, each with its own timeline, list of allowable uses, and reporting requirements, made it somewhat difficult to combine funding sources and align them with the district's priorities.

Local Strategies for Maintaining Fiscal Sustainability

Despite the constraints on districts' strategic resource planning, local finance leaders shared a variety of strategies that their districts have been employing, or plan to employ, to avoid a fiscal cliff—and, where possible, to sustain investments that prove effective in improving student outcomes. Leaders did consistently note that the types of educational investments that their students most need in the aftermath of the pandemic—namely, additional academic support staff and mental health staff—will require ongoing funding to sustain.

Local strategies that leaders identified via survey responses and interviews included the following:

- **Budget cautiously.** Several leaders described the importance of maintaining a cautious, conservative approach to budgeting, keeping in mind declining enrollment and California's funding volatility, even amid the influx of new funding. For example, districts using this strategy would avoid investing large amounts of money all at once into strategies that were untested and would try to avoid investments that lead to long-term, ongoing fiscal obligations (such as hiring new permanent staff) that they cannot maintain once short-term funding is no longer available.
- **Mitigate declining enrollment by boosting attendance and enrolling new students.** Leaders mentioned a variety of efforts to increase ADA despite declining enrollment. These included reengagement campaigns to strengthen student attendance as well as efforts to enroll new students by marketing the district's programs and accepting students through interdistrict transfers. Several leaders also noted that the statewide expansion of transitional kindergarten will continue to help districts' enrollment numbers. Not only does boosting attendance advantage the district financially, but it also holds the potential to improve student outcomes, as students receive more instructional time and have greater access to resources, such as free meals and behavioral health supports provided on campus.
- **Pay attention to position control.** Some leaders noted the importance of closely tracking and monitoring personnel expenditures. Monitoring personnel expenditures includes tracking unfilled positions and attrition for different positions. In some cases, districts repurposed unfilled positions to ones that were easier to recruit for to ensure they could fulfill their staffing needs. In challenging budget times, districts can eliminate unfilled positions rather than being forced to lay off staff. For example, if a district expects that it will lose an approximate number of staff members every 3 years based on prior trends in attrition, the district can plan for more robust hiring with short-term funds while avoiding fears of layoffs in the future, as the district can anticipate that new hires will fill the place of those staff who retire or move on from their positions. Similarly, in interviews with district leaders, some reported that their districts have reduced their ongoing fiscal obligations by not filling some of the vacant teaching positions after teachers retire.

- **Use outside contractors rather than hiring new staff.** One leader reported that their district has used outside contractors for postpandemic support positions rather than hiring new staff. As with the prior strategy, using outside contractors can help the district avoid having to lay off staff if the district can no longer fund the position in the future.
- **Restructure budgets and "rightsize" operations to serve fewer students.** Districts with predictions of long-term declining enrollment can think ahead about how to restructure school and district operations to serve fewer students. Scaling down operations—that is, "rightsizing" programs to serve the current or forecasted student population—may help maximize efficiency while minimizing the need to reduce the breadth of program offerings. One example, though often politically difficult and unpopular with local communities, is to close and consolidate schools. One interviewed COE leader described that one of their districts has already closed multiple schools due to declining enrollment and may need to close more in the future.
- **Use new funds to enhance or expand current programs rather than starting new ones.** A few leaders noted that using funds to temporarily expand existing, high-impact programs—for instance, scaling them to additional sites or offering additional hours—offers the future solution of scaling programs back down to their original scopes, which can be less painful than cutting programs entirely. It can also help districts avoid the burden of start-up costs.
- **Use new funds for priorities already identified during the LCAP planning process.** A COE leader described offering the following advice to all of the COE's districts: "Every time you get one of these one-time sources of funding, the first thing that you should be doing is going back to your LCAP. Go back to your existing planning processes, look at the needs that you identified, and say, 'What were the things we weren't able to fund before, and can the funds be used for those purposes?'" The COE leader explained that this strategy can help the district stay focused on the most pressing needs that it would have prioritized for funding, anyway, "rather than thinking the funds need to be spent on a new idea, which tends to be the instinct, oftentimes."
- **Maintain constant communication with staff, board members, and other education partners about the use of short-term funds.** Leaders consistently identified the importance of communicating which programs use short-term funds, setting the expectation that those programs will end when funding runs out, and reiterating these messages regularly. One leader pointed out that even with such regular messaging, education partners will still frequently get attached to a program and say, "But it's not *really* ending—you'll find a way to fund it anyway, right?" Nevertheless, setting and reiterating realistic expectations can help temper disappointment when programs must end. Providing specific end dates for new positions or programs (i.e., end dates that correspond with the timelines for short-term funds) can also help with establishing these expectations.
- **Evaluate programs for effectiveness.** In both interviews and survey responses, leaders reported that their districts plan to evaluate program effectiveness and use those data to determine which programs to end and which programs to prioritize for future investment. Leaders also noted the importance of sharing these data with education partners as part of a collaborative, data-informed decision-making process. One leader also advised that evaluation criteria—including criteria for scaling a program beyond an initial test site, criteria for continuing a program, and criteria for ending a program—should be determined *before* investing in the program, as it is more difficult to make these decisions later once jobs are on the line.

When asked for details about how they measure the effectiveness of the investments they have made using short-term funds, several leaders said that their districts leverage the program monitoring processes that they already have in place as part of annual LCAP planning. However, some leaders also expressed that the effectiveness of these investments may be hard to measure through means other than anecdotal experiences and popularity of programs. These leaders identified barriers, such as inadequate local data systems, a lack of baseline data due to the pandemic, and, in some cases, the inability to fully implement programs due to staffing shortages. Given that outcome data are not always available to measure program effectiveness, implementation measures—such as staffing shortages that present barriers to implementation—are also critical data points for districts to consider when evaluating whether to reinvest in those programs in the future.

Local strategies for sustaining new investments

Notably, most of the aforementioned strategies focus on avoiding or minimizing new, long-term fiscal obligations. However, if districts determine that some of their investments are worth continuing in future years, after short-term funding runs out, they will need to find a way to fund them. A survey question probed CBOs for details on how their districts planned to continue funding such investments; the question listed several strategies that districts might employ. Figure 6 displays the percentage of CBO respondents who selected each strategy.

The most common response—selected by nearly half of CBO respondents—was that districts plan to reduce expenditures in other areas so that they can free up existing, ongoing funds to support the new programs they had launched or expanded using short-term funds. Similarly, during interviews, respondents' most common response was that their districts will have to make cuts to other programs and/or new programs in order to sustain the most effective investments.

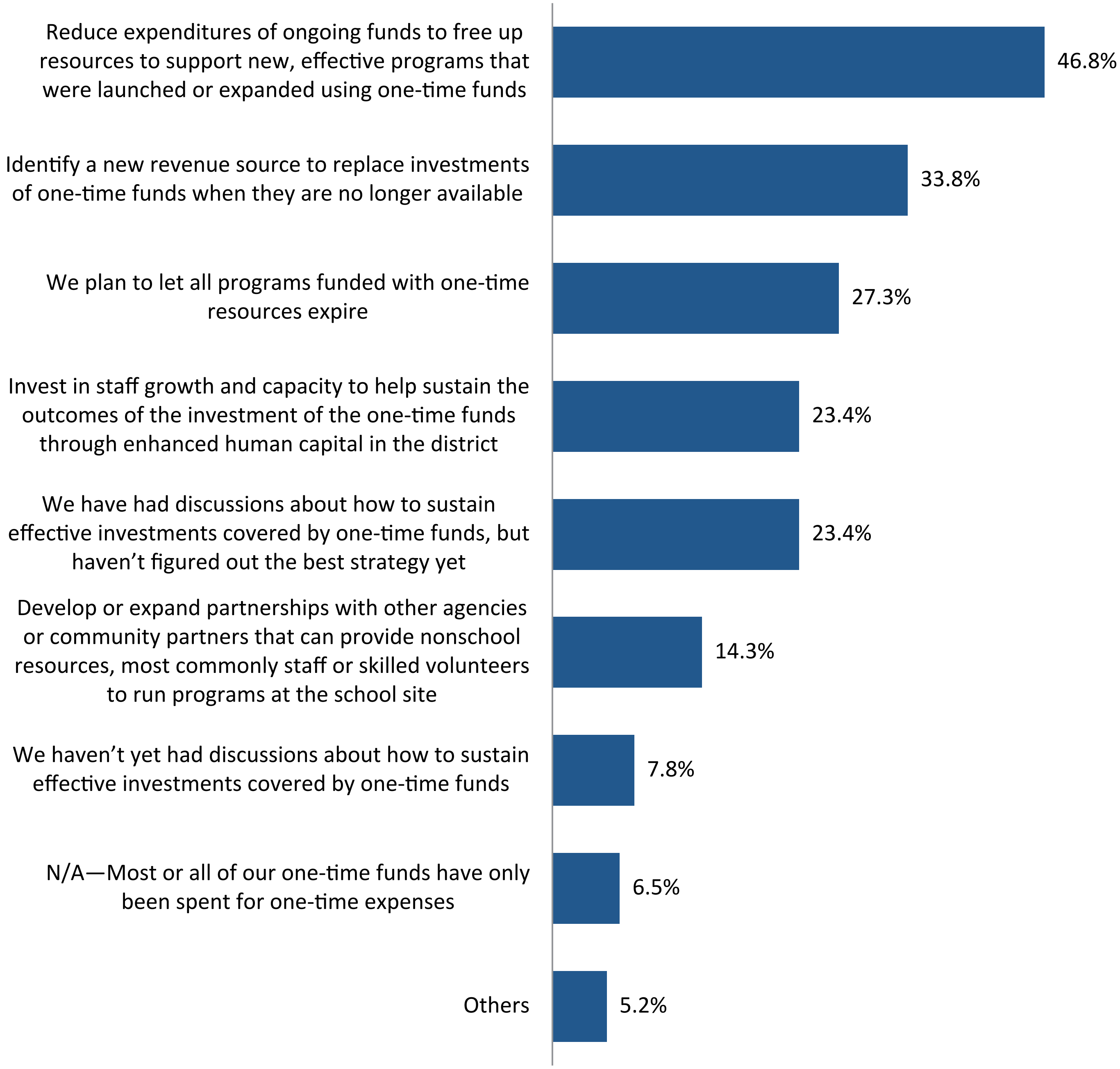
The next most common response, selected by about a third of CBO respondents to the survey, was that districts plan to identify a new revenue source to replace the short-term funds. Two interview respondents also mentioned this strategy, although in one such case, the interviewed COE leader pointed out that finding new revenue sources only leads to fiscal and program stability if the new revenue sources themselves are stable. In this case, the COE leader noted that one of its districts has not been able to secure ongoing funding to sustain its expanded mental-health supports. Instead, the district has had to "lurch from short-term fund to short-term fund" to sustain programs and avoid layoffs.

Just more than a quarter of CBO survey respondents shared that their districts plan to let all programs funded by short-term funding expire. This represents a potential missed opportunity to continue programs that are having a strong, positive impact on students.

One strategy that features prominently within research and guidance on building sustainable, whole-child-serving education systems is to expand the district's nonfiscal resources through developing or expanding partnerships with other agencies or community partners (Breaking Barriers et al., 2022; Center for Mental Health Schools at UCLA, n.d.; Deich & Neary, n.d.; Little, n.d.). However, only one in seven (14.3%) of CBO respondents reported that their districts planned to use this strategy to sustain new initiatives.

As of March 2022, nearly 8 percent of survey respondents had not yet begun discussions about how to sustain effective investments made with short-term funds.

Figure 6. Strategies That Districts Plan to Use to Continue Funding Initiatives Currently Funded by Short-Term State or Federal Dollars, by Percentage of Responding District CBOs Who Selected Each Survey Response



Source: Data from author survey of school district CBOs, 2022.

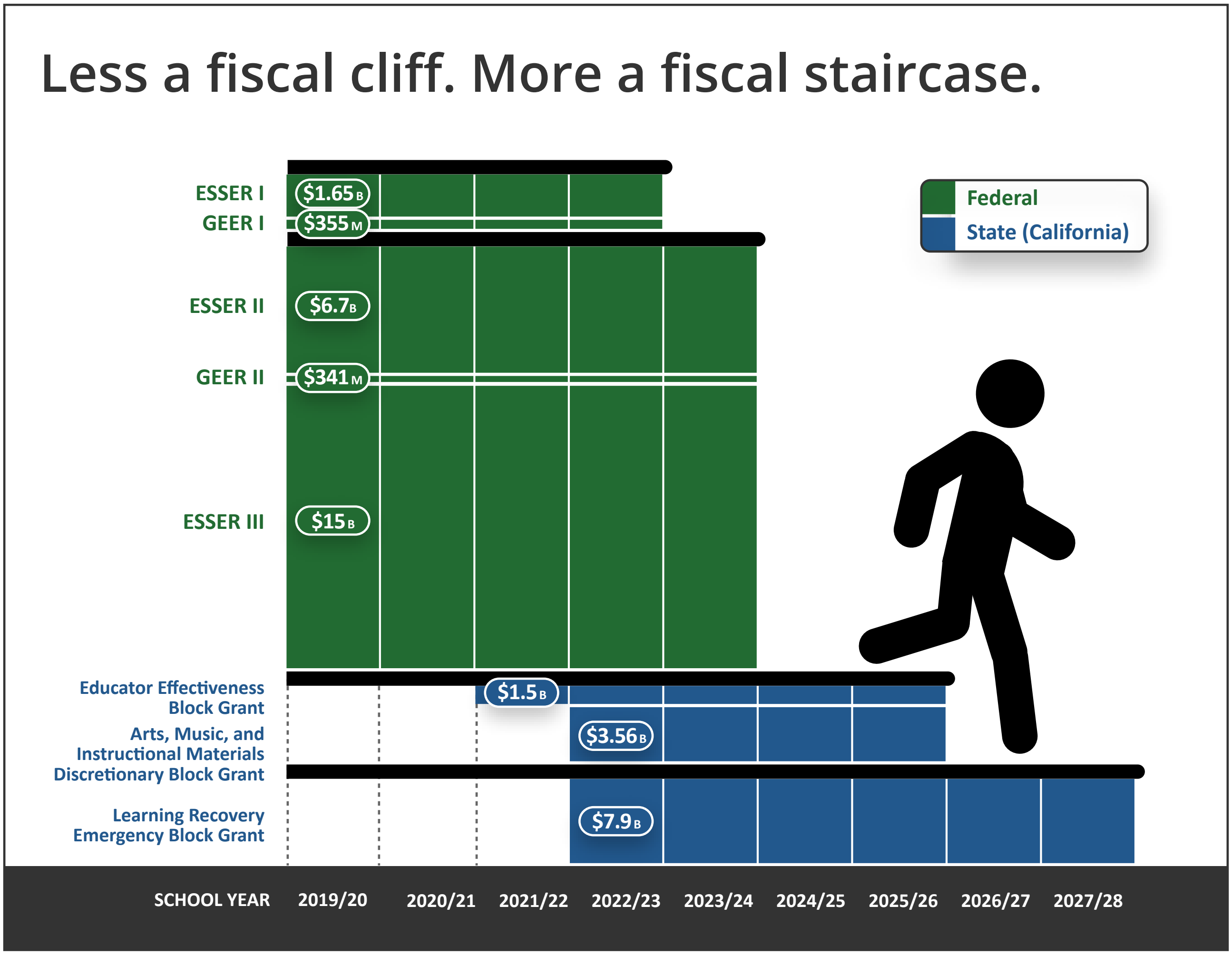
Using remaining relief funds as a "fiscal staircase"

Inevitably, as pandemic relief funding fades, most districts will have to reduce spending. These reductions may include ending programs that are no longer needed, programs that turn out to be less effective than others, and—based on interview, survey, and budget data—programs that districts must cut in response to rising fiscal pressures.

Strategic decisions about how to reduce funding for specific programs or across the district are an important, ongoing, inevitable function of all school districts. First, such decisions are essential for ensuring that districts are investing their limited time, energy, and resources in the programs that have the greatest positive impacts on students and schools and that their programs are evolving alongside students' needs. Second, such decisions are sometimes inevitable given changes in funding levels for education in California. Although state policymakers have made efforts to stabilize school districts' funding over time, education funding is dependent on the health of the state economy as a whole, and the economy is, by nature, cyclical.

Fortunately, the staggered timelines of current pandemic relief funding streams and other state short-term funding mean that districts can phase out investments gradually rather than having to make drastic cuts all at once. For example, while federal funding streams, such as the final Elementary and Secondary School Emergency Relief (ESSER) funds, must be obligated by September 2024, much of California's state pandemic relief funding, which was issued later than the federal funds, can be used at least through 2025/26. Figure 7 demonstrates how the staggered timelines of these funding streams can create an offramp for districts to phase out their investments—enabling a "fiscal staircase" rather than a fiscal cliff.

Figure 7. Pandemic Relief Funding's Staggered Timelines Create the Opportunity for a "Fiscal Staircase" to Phase Out Investments Gradually



Source: Funding data (CDE, n.d.-b, n.d.-c, n.d.-d, n.d.-e, 2022; Fensterwald & Xie, 2022).

There are multiple strategic ways that districts can utilize the extra time afforded by the gradual phasing out of funds. For example, districts can use this additional time to gather sufficient data on the effectiveness of implemented programs, enabling districts and educational partners to make data-driven decisions about which programs to prioritize. Further, districts can use the extra time to seek additional, long-term resources—for instance, through partnerships with other child-serving agencies and community organizations—which may help districts reduce the extent of the cuts they will eventually have to make.

Implications for Continued State Investments Through Short-Term Funding Allocations

The state's rationale behind its recent trend of distributing surplus funds to education systems as short-term grants rather than ongoing funds is clear. Just as local education systems need to avoid making ongoing fiscal commitments that they cannot sustain, state policymakers try to do the same. Indeed, there are signs that the state may reduce or cease its trend of frequent short-term funds very soon; a recent report from the Legislative Analyst's Office suggested that the state is eyeing forecasts of lower state revenue and plans to tighten its belt with regard to education funding, potentially committing just enough education funding in the 2023/24 State Budget to cover its statutory obligations (Petek, 2022).

Some interviewed district leaders openly acknowledged the state's reasoning for offering additional short-term funds rather than committing additional ongoing funds for education. However, local leaders emphasized that if policymakers want to promote various education priorities, then committing only short-term funds will not be sufficient to sustain those priorities long term—nor will it enable meaningful, lasting systems change. In the words of one district finance leader: "The nature of short-term funding tied to specific programs says to me that those programs are not sustainable. When funding comes to us because the legislature has an idea and they want to kickstart [it]… but then funding dries up, [and] there is only one pot of money, what it means is we have to cut something else to keep things going."

When asked for advice on how the state can maximize districts' ability to invest resources effectively and sustain effective investments, local leaders' responses included the following key themes:

- **Ongoing funding to keep pace with increases in costs:** When annual funding adjustments fail to account for the rising costs of staff salaries, retirement obligations, special education, and numerous other unavoidable expenses, districts' existing ongoing funds are stretched too thin to sustain new programs—and even some existing programs. Local leaders recommended that, whenever possible, state leaders allocate any additional funding through ongoing funding streams rather than short-term grants.
- **Funding flexibility:** The substantial flexibility of most pandemic relief funds was critical in enabling districts to meet the urgent needs of students and families. According to local leaders, when short-term grants carried highly specific program requirements, it was more difficult to implement programs effectively and less possible to align funding with local needs. As a result, local leaders strongly recommended that future additional funds, whether short term or ongoing, have as much flexibility as possible. For ongoing funds, leaders recommended prioritizing increases to LCFF base funding.
- **A single allocation of funds rather than numerous separate allocations:** Local leaders described that attempting to braid funds from numerous pandemic funding streams, each with its own reporting requirements, seemed like an unnecessary administrative hurdle. Leaders suggested that if the state were to consolidate short-term funding sources and issue the funds as a single grant to each school district, it would be easier for districts to spend the funds on their identified priorities.
- **Clear guidance on allowable uses of funds:** Some leaders reported that greater clarity on funds' allowable uses would have been helpful. One leader also expressed that the state should avoid issuing new spending restrictions and auditing guidelines later, after local planning has occurred, as this can upend districts' planning and implementation efforts.
- **Longer planning and spending timelines:** Local leaders cited the short planning timelines for some pandemic relief funds as impediments to effective, strategic decision-making. Some also cited the initial spending timelines as a barrier. Although the most challenging spending timelines were extended, leaders recommended setting somewhat longer timelines up front.
- **Addressing statewide staff shortages:** With staff shortages presenting a major barrier to districts' ability to support students' academic and social–emotional needs, state efforts to expand the educator and mental health professional workforce could play a pivotal role in supporting districts' ability to implement effective, sustainable supports for students.

Conclusion

According to local education leaders, state and federal pandemic relief funds have been instrumental in enabling districts to meet students' heightened needs during and in the aftermath of the pandemic. In particular, these funds have supported districts' pandemic response efforts (including the shift to virtual learning), campus reopenings, and learning recovery programs (including enhanced academic and social–emotional supports).

However, based on evidence from the three samples of districts examined in this paper, most districts will not be able to sustain many of their expanded academic and social–emotional supports once short-term funding runs out—even though they anticipate that students' heightened needs will still be there. Furthermore, prepandemic fiscal pressures, such as declining enrollment and the rising costs of staffing and special education, will become increasingly visible and threatening to districts' budgets once short-term funding expires.

Although it appears that most districts will have difficult choices to make in the future, evidence suggests that many districts may face more of a fiscal slope—or "fiscal staircase," thanks to the state's staggered relief funding timelines—than a sudden fiscal cliff. This gradual phasing out of relief funding offers districts the opportunity to leverage several strategies that can lessen the blow, such as monitoring their investments' effectiveness and using these data to inform future budget decisions; communicating consistently with education partners about ending short-term investments; and, ideally, seeking community partnerships and other ongoing sources of new revenue.

State policymakers can also use lessons learned from pandemic relief funding to maximize the effectiveness of future education funding. Further study of the long-term impacts of large, short-term grants compared with smaller, ongoing increases to the LCFF would be beneficial, although local education leaders strongly recommended the latter. State policymakers will want to ensure that the state's investments in education are sustainable, but districts, on the receiving end, face this same challenge—to invest in and sustain educational programs that make a meaningful, positive impact on California students' futures.

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