FISCAL REPORT

PUBLIC EDUCATION'S POINT OF REFERENCE FOR MAKING EDUCATED DECISIONS

Current District Cost Pressures and Potential Solutions

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Last week, the Legislative Analyst's Office (LAO) released a report looking at recent cost pressure trends facing school districts. While the number of districts with qualified or negative budget ratings is historically low, this is not indicative that budgets are currently easy to balance.

Cost Pressures

Many of the cost drivers highlighted by the LAO will be very familiar to districts—declining enrollment, staffing levels and compensation, and special education expenses.

Declining Enrollment

In addition to declining birth rates over the last decade, California has also experienced net out-migration of school-aged children every year since 2013. This decline is not uniform across the state; counties like Los Angeles, Orange, and Santa Clara are experiencing the most significant declines, while more affordable areas like Kern and San Joaquin counties are experiencing growth.

Charter school attendance has also been growing significantly, from 8% to 10.5% of overall public school attendance between 2013–14 and 2018–19. However, 10% of districts actually saw a decline in charter school attendance.

Staffing Levels and Compensation

As districts reduced their class sizes during implementation of the Local Control Funding Formula (LCFF), the number of full-time equivalent (FTE) teachers has increased 6.4% from 2013–14 to 2018–19. Over the same time period, even larger growth has occurred in the classified employee ranks, from 242,000 FTE support staff in 2013–14 compared to 294,000 in 2018–19.

Districts are also increasing compensation for the staff they have: the average salary of a teacher in 2018–19 was approximately $82,000, an increase of about 5% over the inflation-adjusted 2013–14 level. The LAO also noted that small districts have the most varied compensation changes—ranging from an increase of 38% to a decrease of 24%—compared with a 9% increase to a 5% decrease in the largest districts.

Additionally, districts have been facing ongoing increases in pension costs for both classified and certificated staff. For 2019–20, the LAO estimates total district pension contributions will be approximately $7.9 billion, an increase of $4.7 billion over the 2013–14 level. On the plus side, districts' health benefits cost increases have slowed significantly since 2013–14.

Special Education Expenses

As highlighted in their special education primer this fall (see Overview of Special Education in California), the LAO noted the growing rate of identification of students with disabilities. Over the past decade, identification for special education services has increased from 11% to 13%, and much of this growth is in the diagnosis of Autism. The number of students identified with Autism has increased from 1 in 600 in 1997–98 to about 1 in 50 in 2018–19, and the trend is expected to continue.

Chronically Distressed Districts

The LAO took a look at what they defined as "chronically distressed districts": two or more qualified/negative ratings since the First Interim report of 2016–17, or two consecutive negative ratings in 2018–19. While these districts come in all shapes and sizes, they tend to be large, experiencing declining enrollment, and have slightly higher unduplicated pupil percentages. The LAO also found that these districts have high leadership turnover, with nearly half of the districts reporting turnover of their superintendent or chief business officer within the past 12 months.

Options to Help Districts

To help alleviate districts' cost pressures, the LAO recommends that the Legislature:

- Consider providing more funding through the LCFF, which would help all districts address some of their key cost pressures—including their salary, health care, and pension costs
- Increase special education funding rates, addressing the historic inequities by leveling up current funding rates
- Set aside a portion of new one-time Proposition 98 funding for paying down districts' unfunded pension liabilities more quickly
- Provide districts with one-time grants to be used for any unfunded retiree liabilities or future pension rate increases

The full report can be found here.