



## LCFF Funding and Structural Debt Payments

### **Question:**

Under LCFF, can school districts use funds to pay off structural debt?

### **Short Answer:**

Districts may use **base funding** to pay off debt. They may not, however, use **supplemental or concentration funding** for that purpose, because paying off debt does not “increase or improve services” for the high-need students who generate those funds.

### **Background:**

Although LCFF provides school districts with increased flexibility over how they use state funds, the fundamental premise of LCFF is that districts are supposed to spend their funds to improve the outcomes for the students who generate the funds. Under LCFF, funding is generated from three sources:

- all students generate **base funding**;
- districts receive additional grants, called **supplemental funding**, for each high-need student (low-income student, English learner, or foster youth); and
- if over 55% of a district’s total enrollment are high-need students, the district receives additional funding, called **concentration funding**, for each student over that threshold.

Districts must use supplemental and concentration funding to “increase or improve services” for high-need students who generate those funds, and the increase or improvement of services must be “in proportion to” the increase in funding the district receives because of those students. Regulations recently adopted by the State Board of Education state that increasing or improving services means “to grow services” in quantity or quality.

### **Analysis:**

There are no restrictions on the use of **base funding**, which is generated by all students, so districts may use those funds to pay down structural debt or otherwise expend funds to maintain the status quo in terms of quality or level of educational services. Even with base funds, however, districts are expected to be responsive to community priorities and must establish various avenues for meaningful public input before they decide on any particular use of these funds. Accordingly, if parents and other stakeholders have concerns about proposals to use base

funding to pay off debt, they can advocate for spending base funding on other actions that will improve outcomes for all students across the eight state priority areas.

Districts must use **supplemental and concentration funding** to “increase or improve” services for the high-need students who generate those funds. Paying off debt does not “increase or improve” the services for students or “upgrade” the entire educational program in the district, as the LCFF statute and regulations require. In fact, spending funds on debt payments means those funds cannot be used to increase or improve the existing level of services in the district’s educational program. At best, debt payments result in the district maintaining the same level of services for high-need students in the relevant LCAP year, not an increase, improvement or upgrade of services. Accordingly, districts may not use supplemental and concentration funds to make debt payments.

In addition, districts with less than 55% high-need students can use supplemental funding on districtwide programs or services only if they also demonstrate in their LCAP that the particular proposed use of funds is the “most effective” way to meet the goals for the students who generated supplemental funds. Given the other approaches available to districts to improve outcomes in the eight state priority areas, districts cannot realistically make this showing.

Beyond the legal restrictions, because districts can use base funding for debt repayment, there are strong arguments against using supplemental and concentration funding—which is specifically intended to help improve outcomes for high-need student populations—for general debt service. During the initial years of LCFF implementation, current budget projections indicate that most of the increase in funding that districts receive will be in their base funding. Given the significant flexibility districts have over base funding and the relatively large amount of total funding they will receive through base grants, districts have no reason to use supplemental and concentration funding for debt payments.

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