
SENATE COMMITTEE ON EDUCATION

Senator Sasha Renée Pérez, Chair

2025 - 2026 Regular

Bill No: AB 1204 **Hearing Date:** June 3, 2026
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Urgency: No **Fiscal:** Yes
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Subject: Local control funding formula: school districts and charter schools: pupils experiencing homelessness: supplemental and concentration grants: regional adjustment factors: grade-span adequacy adjustments.

SUMMARY

This bill makes significant changes to the Local Control Funding Formula (LCFF) for school districts and charter schools by: (1) expanding targeted funding for high-needs pupils, including pupils experiencing homelessness; (2) increasing supplemental grant funding and expanding concentration grant eligibility; (3) establishing a minimum annual LCFF cost-of-living adjustment (COLA) and future regional cost adjustments; and (4) creating a phased transition toward a revised LCFF funding structure beginning in the 2025-26 fiscal year and intended for full implementation by 2030-31.

BACKGROUND

Existing law:

- 1) Establishes the LCFF as the primary funding formula for school districts, charter schools, and county offices of education.
- 2) Provides school districts and charter schools with grade span base grants for grades K-3, grades 4-6, grades 7-8, and grades 9-12, and requires those grants to receive an annual statutory COLA. Existing law also provides grade span adjustments for class size reduction in grades K-3 and college and career readiness in grades 9-12.
- 3) Provides a supplemental grant equal to 20% of the adjusted base grant for each “unduplicated pupil,” defined as a pupil who is eligible for free or reduced-price meals, an English learner, or a foster youth. Existing law requires pupils who qualify in more than one category to be counted only once for purposes of the LCFF.
- 4) Provides a concentration grant equal to 65% of the adjusted base grant for each unduplicated pupil above 55% of a school district’s or charter school’s enrollment.
- 5) Requires school districts and charter schools to annually report unduplicated pupil enrollment data to the Superintendent of Public Instruction (SPI) and requires county superintendents of schools to review and validate that data.

- 6) Requires the State Board of Education to adopt regulations governing the expenditure of supplemental and concentration grant funding.
- 7) Requires, upon full implementation of the LCFF, school districts to maintain an average class enrollment of not more than 24 pupils in grades K-3, unless an alternative ratio is collectively bargained.
- 8) Requires the Legislative Analyst's Office (LAO), on or before January 1, 2026, to submit a report to the Legislature examining the effects of changing the LCFF funding calculations from average daily attendance (ADA) to enrollment-based funding.

ANALYSIS

This bill:

- 1) Adds pupils experiencing homelessness, as defined under the federal McKinney-Vento Homeless Assistance Act, to the definition of "unduplicated pupils" for purposes of generating LCFF supplemental and concentration grant funding.
- 2) Beginning in the 2030-31 fiscal year, increases the supplemental grant add-on from 20% to 35% of the adjusted base grant for each unduplicated pupil.
- 3) Beginning in the 2030-31 fiscal year, lowers the concentration grant threshold from 55% to 45% unduplicated pupil enrollment while maintaining the 65% concentration grant add-on rate.
- 4) Removes the current limitation on charter school concentration grant calculations tied to the unduplicated pupil percentage of the surrounding school district.
- 5) Requires the annual LCFF base grant COLA to be no less than 4% in any fiscal year.
- 6) Requires the California Department of Education (CDE), on or before January 1, 2030, to:
 - a) Establish regional cost adjustment factors to address regional housing and labor cost differences; and
 - b) Publish those factors on its internet website.
- 7) Requires, beginning in the 2030-31 fiscal year, LCFF base grant adjustments to also be multiplied by applicable regional cost adjustment factors.
- 8) Requires the CDE, on or before January 1, 2028, to develop recommendations for "adequacy adjustments" to the LCFF grade span base grants to account for:
 - a) Differing educational costs across grade spans; and

- b) Revisions made by the bill to supplemental and concentration grants.
- 9) Requires the CDE to submit those adequacy adjustment recommendations to the Legislature.
- 10) Establishes a phased LCFF transition adjustment from the 2025-26 fiscal year through the 2029-30 fiscal year by requiring the SPI to annually calculate the difference between:
 - a) Current-law LCFF funding; and
 - b) The amount that would be generated under the revised formula established by the bill.
- 11) Requires a portion of that difference to be added to each school district's and charter school's LCFF entitlement during the transition period, increasing incrementally each year until full implementation.
- 12) Continuously appropriates the funding necessary to provide the transition adjustments.
- 13) Requires school districts and charter schools to demonstrate that any additional funding generated by the bill is used to support additional services for the targeted pupil groups.
- 14) Establishes a hold harmless provision prohibiting a school district or charter school from receiving less LCFF state aid per ADA than it received in the 2024-25 fiscal year.
- 15) Requires the LAO, on or before January 1, 2027, to study the impact of the bill's changes to the LCFF across and within geographic regions of the state.
- 16) States the intent of the Legislature to fully transition to the revised LCFF structure beginning in the 2030-31 fiscal year.

STAFF COMMENTS

- 1) ***Need for the bill.*** According to the author, "Education is the cornerstone of opportunity, yet California's current school funding system has neglected its most vulnerable students, particularly those experiencing homelessness. AB 1204 addresses these inequities by designating homeless students as "unduplicated pupils" under the Local Control Funding Formula (LCFF), unlocking essential resources for support services like transportation, counseling, and shelters.

AB 1204 empowers districts to better serve high-need populations. This legislation aligns funding with equity goals, ensuring that resources are directed to those who need them most, while supporting local educators in enhancing attendance and graduation rates. Ultimately, AB 1204 is a moral imperative that seeks to fulfill California's promise of equity and excellence for every student."

- 2) ***This bill proposes a substantial redesign of the LCFF.*** This bill would make multiple structural changes to the state's primary K-12 funding formula, including expanding the definition of unduplicated pupils, increasing supplemental grant funding, lowering the concentration grant threshold, establishing a minimum annual COLA floor, creating future regional cost adjustments, directing adequacy studies related to grade span funding, and phasing in a new LCFF target structure through transition funding beginning in the 2025-26 fiscal year.

Collectively, these changes would move the LCFF significantly beyond its original 2013 structure. In many respects, the bill resembles the establishment of a second-generation LCFF funding target, similar to the original LCFF transition model adopted during the Brown Administration. The Committee may wish to consider whether these changes represent refinements to the existing formula or a broader redefinition of the underlying goals and philosophy of the LCFF itself.

- 3) ***Growing research and policy discussion regarding whether the LCFF sufficiently accounts for concentrated poverty and overlapping student need.*** Much of the recent academic and policy literature surrounding the LCFF has focused on whether the current formula adequately captures the intensity and concentration of student need. Research from organizations such as the Public Policy Institute of California (PPIC), Policy Analysis for California Education (PACE), and the Learning Policy Institute (LPI) has generally found that LCFF funding increases were associated with improved student outcomes, particularly in higher-needs districts. Studies have linked LCFF-driven spending increases to gains in graduation rates, reductions in suspensions, and modest improvements in academic achievement, especially among low-income students and students in districts receiving larger concentration grant increases.

At the same time, several reports have questioned whether the current supplemental and concentration grant structure adequately reflects the realities of concentrated and overlapping disadvantage. Under current law, pupils are counted only once for LCFF purposes, even when they simultaneously experience multiple risk factors. Similarly, homelessness is not separately recognized in the formula despite often generating distinct educational and service needs. Researchers have also raised concerns regarding the current 55% concentration grant threshold, arguing that it creates what is effectively a "funding cliff," where districts with otherwise similar student populations may receive substantially different funding levels depending on whether they fall just above or below the threshold.

This bill responds to many of those concerns by explicitly adding pupils experiencing homelessness as a targeted group and lowering the concentration grant threshold from 55% to 45%. Although earlier versions of the bill proposed double- and triple-counting certain pupils with overlapping disadvantages, those provisions were ultimately removed. Nevertheless, the bill still reflects a broader policy movement toward recognizing that concentrated poverty and overlapping student needs may require greater funding differentiation than exists under the current formula.

- 4) ***Adequacy versus equity in California’s school finance system.*** One of the more notable aspects of this bill is its attempt to blend two historically distinct school finance concepts: equity and adequacy. The LCFF was originally designed primarily as an equity-based formula intended to simplify California’s prior categorical funding structure while directing additional resources toward low-income students, English learners, and foster youth.

This bill moves further into adequacy-oriented territory by establishing a 4% minimum COLA floor regardless of inflation levels, requiring regional cost adjustments tied to housing and labor markets, and directing CDE to develop recommendations regarding whether current grade span base grants adequately reflect educational costs. That latter provision may be of particular interest to stakeholders who argue that current grade span funding does not fully reflect the actual costs of operating comprehensive high schools. For example, the California High School Coalition notes that, when adjusted for instructional time requirements, the current 9-12 grade span adjustment produces less funding per instructional hour than lower grade spans, while high schools also do not receive Expanded Learning Opportunities Program (ELOP) funding that is available for younger students. These provisions raise broader policy questions that have increasingly emerged in California school finance discussions, including what constitutes an “adequate” education in California, whether funding targets should differ significantly by region due to labor and housing costs, and whether the LCFF should eventually evolve into a regionally differentiated adequacy formula similar to those used in some other states.

The bill does not directly answer those questions, but it clearly moves California further in that direction.

- 5) ***Regional cost adjustments could significantly alter the distributional structure of the LCFF.*** Current LCFF funding rates are largely uniform statewide, notwithstanding major differences in local labor markets and cost pressures. This bill would require the CDE, by January 1, 2030, to establish regional cost adjustment factors addressing housing and labor cost differences.

Conceptually, regional adjustments seek to address a longstanding criticism of statewide formulas: equal funding levels do not necessarily provide equal purchasing power across vastly different labor and housing markets. This issue has become increasingly prominent in higher-cost coastal regions, where school districts frequently report difficulty recruiting and retaining staff due to housing affordability pressures.

At the same time, regionalized funding systems can create significant implementation and policy complexities. This bill leaves unresolved questions regarding how regions would be defined, what economic indicators would be used, how frequently adjustments would be recalculated, and whether regional differentiation could create significant funding disparities between otherwise similar local educational agencies (LEAs). In practice, California has historically approached regional inequities more indirectly through workforce incentives, categorical grants, and local bargaining pressures rather than through explicit regionalized base grant structures.

- 6) ***The bill would likely create substantial long-term Proposition 98 cost pressures.*** Although the bill states legislative intent to fully implement the revised formula by 2030-31, the measure would begin generating transition costs immediately, beginning in 2025-26 through required one-fifth annual transition adjustments.

According to the Assembly Appropriations analysis, each additional 1% LCFF COLA represents approximately \$800 million in additional costs. The analysis further estimates that establishing a 4% COLA floor could create annual costs of up to approximately \$3.2 billion, depending on inflation levels, while increasing the supplemental grant percentage from 20% to 35% could create approximately \$5 billion in additional annual costs based on current funding levels.

Those estimates do not fully account for future regional cost adjustments, future adequacy recommendations, or the interaction of these provisions with future Proposition 98 calculations. The Committee may wish to consider how the proposed formula changes interact with broader debates regarding the long-term sustainability of Proposition 98 obligations, competing K-12 priorities within the guarantee, and whether future increases in the guarantee should primarily be used to deepen LCFF investments versus funding categorical or targeted initiatives.

- 7) ***Broader legislative trend toward increased accountability for supplemental and concentration grant funding.*** Since the LCFF's enactment, the Legislature has repeatedly revisited concerns regarding whether supplemental and concentration grant funding is sufficiently transparent and demonstrably connected to services for the students generating the funding.

Over the past decade, multiple reports from PPIC, PACE, and the State Auditor have raised concerns regarding inconsistent local reporting practices, challenges in tracking proportionality requirements, and varying levels of stakeholder engagement in Local Control and Accountability Plan (LCAP) development and implementation.

This bill continues that trend by requiring LEAs to demonstrate that any increased funding generated by the bill is used to support additional services for the targeted student groups. In doing so, the bill reflects an ongoing policy tension embedded within the LCFF itself: balancing broad local flexibility with the state's interest in ensuring that targeted equity funding is meaningfully connected to improved services and outcomes for high-needs pupils.

- 8) ***Arguments in Support.*** Supporters argue that the bill represents a necessary next step in the evolution of the LCFF by better accounting for concentrated student need, regional cost pressures, and the realities facing districts serving high-needs student populations.

The San Diego Unified School District writes that the bill "strengthens the LCFF while upholding its core principles of equity, accountability, and local control" and particularly emphasizes the importance of the bill's proposed regional cost

adjustment factor. According to the district, rising housing, transportation, and labor costs in high-cost regions have increasingly outpaced the purchasing power of statewide LCFF funding levels. The district argues that many families experiencing substantial economic hardship do not qualify as low-income under existing LCFF definitions, creating a disconnect between actual student need and the funding districts receive to support those students.

Supporters further contend that the lack of regional cost differentiation within the LCFF creates growing challenges for districts attempting to recruit and retain staff in high-cost areas. San Diego Unified states that “long-term, sustainable solutions require a funding formula that accounts for regional cost differences and their impact on staffing, operations, and student needs.”

More broadly, supporters view the bill as part of an ongoing effort to refine the LCFF to better reflect both concentrated student need and the differing operational realities faced by districts across the state.

- 9) ***Arguments in Opposition.*** Opponents generally do not dispute the existence of funding adequacy challenges within California’s K-12 finance system, but instead argue that the bill directs future Proposition 98 growth through the wrong mechanism.

Pleasanton Unified School District, part of a coalition of districts identifying themselves as “Raise the Base”, argues that the bill “distributes existing Proposition 98 funding in ways that constrain base grant growth, widen disparities, and limit local control.” The coalition contends that the bill primarily redistributes existing Proposition 98 resources through expanded supplemental and concentration grant mechanisms rather than increasing universally applied LCFF base grants that support core educational services for all students.

Opponents further argue that California districts across all demographic profiles have spent more than a decade absorbing inflationary pressures related to pensions, health care, insurance, labor markets, and utilities, while LCFF base grant purchasing power has eroded. According to the coalition, directing future funding growth primarily through targeted grants rather than the base grant risks creating larger funding disparities between districts while limiting unrestricted funding available for local decision-making.

SUPPORT

California Federation of Teachers
 Children Now
 EdTrust-West
 Los Angeles Unified School District
 Oakland Unified School District
 Public Advocates
 San Diego Unified School District
 San Mateo County School Boards Association Legislative Action Committee
 One Individual

OPPOSITION

Pleasanton Unified School District

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