

ANNUAL ADJUSTMENT TO MAXIMUM LEVEL OF TOTAL BONDING CAPACITY FOR FINANCIAL HARDSHIP ASSISTANCE

PURPOSE OF REPORT

To adopt the annual inflation adjustment for the maximum level of total bonding capacity allowable for a school district to be automatically deemed eligible for financial hardship assistance, which must be adjusted each fiscal year pursuant to Education Code (EC) Section 17075.15(d)(3)(B).

DESCRIPTION

With the passage of the Kindergarten through Grade 12 Schools and Local Community College Public Education Facilities Modernization, Repair, and Safety Bond Act of 2024 (Proposition 2) by a majority of California's voters on November 5, 2024, statute was amended to increase the maximum level of total bonding capacity that a school district can have to be automatically deemed eligible for financial hardship assistance from \$5 million to \$15 million and to require that amount to be adjusted each fiscal year, starting with the 2026-27 fiscal year. The total bonding capacity must be adjusted by the inflation adjustment computed pursuant to EC Section 42238.02(d)(2), which is the cost-of-living adjustment (COLA) applied to the grade span adjusted base grants of the Local Control Funding Formula (LCFF). This item requests that the State Allocation Board (Board) make the first annual adjustment based on the 2026-27 LCFF COLA percentage as reported by the California Department of Finance.

AUTHORITY

See Attachment A

BACKGROUND

Financial Hardship Program

The Financial Hardship Program assists school districts and County Offices of Education (COE) that cannot provide their required local matching share for a School Facility Program (SFP) new construction or modernization project or their matching share for a California Preschool, Transitional Kindergarten and Full-Day Kindergarten Facilities Grant Program (CPTKFDKFGP) new construction or retrofit project. The SFP statutory authority for financial hardship assistance is EC Section 17075.15, and CPTKFDKFGP statute EC Section 17375(b)(2) refers to financial hardship requirements in EC Section 17075.15. The SFP and CPTKFDKFGP regulatory authorities for this program are found within SFP Regulation Section 1859.81 and CPTKFDKFGP Regulation Section 1859.14, respectively. Both sections outline the criteria for qualifying for financial hardship assistance.

Upon determination of financial hardship eligibility, the Office of Public School Construction (OPSC) then reviews school districts' financial records to determine the

BACKGROUND (cont.)

amount of available local funds that are available to contribute towards the required local matching share of a project, if any.

If a district meets the basic eligibility requirements outlined in the regulations, and available local funds are less than the district's required local matching share of a project, then the state will provide a financial hardship grant for the difference between the district's available local funds and the district's required local matching share. Financial hardship assistance can provide up to 100 percent of the required local matching share, in the event a district meets eligibility requirements and has no local funds available to contribute to the project.

Proposition 2 – Financial Hardship Provisions

Voter approval of Proposition 2 made statutory amendments to EC Section 17075.15 operative to increase the maximum level of total bonding capacity that a school district could have to be automatically deemed eligible for financial hardship assistance from \$5,000,000 to \$15,000,000. Following voter approval of Proposition 2, OPSC confirmed as part of an action item presented on December 3, 2024 that OPSC would apply the new threshold for financial hardship eligibility immediately to all applications requesting financial hardship assistance that were received on or after October 31, 2024, in accordance with the statutory changes. Regulatory amendments to conform to the statutory changes were subsequently approved by the Board on an emergency basis on March 26, 2025, and were approved by the Office of Administrative Law and became effective on June 20, 2025.

Additionally, Proposition 2 amended EC Section 17075.15 to require that, commencing with the 2026-27 fiscal year, the maximum level of total bonding capacity that a school district can have to be automatically deemed eligible for financial hardship assistance shall be adjusted each fiscal year by the inflation adjustment computed pursuant to EC Section 42238.02(d)(2), which relates to the statutory COLA adjustment applied to the grade span adjusted base grants of the LCFF.

The LCFF COLA percentage is based on a national price index published by the Bureau of Economic Analysis within the United States Department of Commerce that reflects the changes in the cost of goods and services purchased by state and local governments throughout the country. The LCFF COLA is set through the state's annual budget process. The percentage change of this adjustment is determined using the latest data available as of May 10 of the previous fiscal year, as reported by the California Department of Finance (DOF). DOF first reports a preliminary percentage in the Governor's Budget proposal each January and then reports an updated percentage in the May Revision to the Governor's Budget proposal.

STAFF ANALYSIS/STATEMENTS

The LCFF COLA for the 2026-27 fiscal year is 2.87 percent. Using this percentage, the updated maximum total bonding capacity allowable for a school district to be automatically deemed eligible for financial hardship assistance for the 2026-27 fiscal year, effective July 1, 2026, is \$15,430,500.

The following chart shows the total bonding capacity threshold for applications received on or after October 31, 2024 that was made effective upon passage of Proposition 2, compared to the resulting threshold amount for the 2026-27 fiscal year, upon approval of the proposed 2026-27 adjustment.

LCFF Cost-of-Living Adjustment 2.87%

	Current Threshold Amount Effective Upon Passage of Proposition 2 for Applications Received on or after 10-31-2024	Potential Threshold Amount Effective 7-1-2026
Total Maximum Bonding Capacity Threshold	\$15,000,000	\$15,430,500

Upon Board approval, OPSC will immediately apply the new threshold to all projects presented to the Board on or after July 1, 2026. Applicants newly qualifying under the updated threshold amount will need to provide updated financial statements that include information through June 30, 2026, to ensure financial information is reviewed from the same point in time. Any projects approved by the Board for an unfunded approval or a direct apportionment prior to July 1, 2026 are not eligible for financial hardship assistance based on the new threshold. Any application that has not yet been presented to the Board and is withdrawn by a school district and resubmitted, is subject to the threshold in effect at the time the application is presented to the Board for approval.

RECOMMENDATION

Adopt the increase of 2.87 percent to the maximum level of total bonding capacity allowable for a school district to be deemed eligible for financial hardship assistance for the 2026-27 fiscal year using the 2026-27 LCFF COLA to be effective July 1, 2026.

This Item was approved by the State Allocation Board on June 24, 2026.

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AUTHORITY

Education Code (EC) Section 17075.15 states:

- (a) From funds available from any bond act for the purpose of funding facilities for school districts with a financial hardship, the board may provide other construction, modernization, or relocation assistance as set forth in this chapter or Chapter 14 (commencing with Section 17085) to the extent that severe circumstances may require, and may adjust or defer the local financial participation, as pupil health and safety considerations require to the extent that bond act funds are provided for this purpose.
- (b) The board shall adopt regulations for determining the amount of funding that may be provided to a district, and the eligibility and prioritization of funding, under this article.
- (c) The regulations shall define the amount, and sources, of financing that the school district could reasonably provide for school facilities as follows:
 - (1) Unencumbered funds available in all facility accounts in the school district, including, but not limited to, fees on development, redevelopment funds, sale proceeds from surplus property, funds generated by certificates of participation for facility purposes, bond funds, federal grants, and other funds available for school facilities, as the board may determine.
 - (2) The board may exclude from consideration all funds encumbered for a specific capital outlay purpose, a reasonable amount for interim housing, and other funds that the board may find are not reasonably available for the project.
- (d) The regulations shall also specify a method for determining required levels of local effort to obtain matching funds. The regulations shall include consideration of at least all of the following factors:
 - (1) Whether the school district has passed a bond measure within the two-year period immediately preceding the application for funding under this article, the proceeds of which are substantially available for use in the project to be funded under this chapter, but remains unable to provide the necessary matching share requirement.
 - (2) Whether the principal amount of the current outstanding bonded indebtedness issued for the purpose of constructing school facilities for the school district and secured by property within the school district or by revenues of, or available to, the school district, which shall include general obligation bonds, Mello-Roos bonds, school facility improvement district bonds, certificates of participation, and other debt instruments issued for the purpose of constructing school facilities for the school district and for which owners of property within the school district or the school district are paying debt service is at least 60 percent of the school district's total bonding capacity, as determined by the board.
 - (3) (A) Whether the total bonding capacity, as defined in Section 15102 or 15106, as applicable, is fifteen million dollars (\$15,000,000) or less, in which case, the school district shall be deemed eligible for financial hardship.
(B) Commencing with the 2026–27 fiscal year, the amount described in subparagraph (A) shall be adjusted each fiscal year by the inflation adjustment computed pursuant to paragraph (2) of subdivision (d) of Section 42238.02.
 - (4) Whether the application for funding under this article is from a county superintendent of schools.
 - (5) Whether the school district submits other evidence of substantial local effort acceptable to the board.

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(6) The value of any unused local general obligation debt capacity, and developer fees added to the needs analysis to reflect the district's financial hardship, available for the purposes of school facilities financing.

EC Section 42238.02(d) states in part:

(d) The Superintendent shall compute a grade span adjusted base grant equal to the total of the following amounts:

(1) For the 2013–14 fiscal year, a base grant of:

(A) Six thousand eight hundred forty-five dollars (\$6,845) for average daily attendance in kindergarten and grades 1 to 3, inclusive.

(B) Six thousand nine hundred forty-seven dollars (\$6,947) for average daily attendance in grades 4 to 6, inclusive.

(C) Seven thousand one hundred fifty-four dollars (\$7,154) for average daily attendance in grades 7 and 8.

(D) Eight thousand two hundred eighty-nine dollars (\$8,289) for average daily attendance in grades 9 to 12, inclusive.

(2) In each year the grade span adjusted base grants in paragraph (1) shall be adjusted by the percentage change in the annual average value of the Implicit Price Deflator for State and Local Government Purchases of Goods and Services for the United States, as published by the United States Department of Commerce for the 12-month period ending in the third quarter of the prior fiscal year. This percentage change shall be determined using the latest data available as of May 10 of the preceding fiscal year compared with the annual average value of the same deflator for the 12-month period ending in the third quarter of the second preceding fiscal year, using the latest data available as of May 10 of the preceding fiscal year, as reported by the Department of Finance.

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EC Section 17375(b) states in part:

(b) (1) The State Allocation Board shall award grants to school districts that lack the facilities to provide transitional kindergarten or full-day kindergarten as required for eligibility pursuant to Sections 17071.25 and 17072.10, that lack facilities that satisfy the design requirements required for new kindergarten classrooms as specified in paragraph (2) of subdivision (h) of Section 14030 of Title 5 of the California Code of Regulations, or that lack the facility capacity to increase California state preschool program services.

(2) Priority for grants shall be given to school districts that meet either of the following criteria:

(A) The school district is financially unable to contribute a portion of, or all of, the local matching share required pursuant to paragraph (3) for a project, and meets the requirements for financial hardship pursuant to Sections 17075.10 and 17075.15. For purposes of this section, paragraph (5) of subdivision (d) of Section 17075.15 shall not apply.

(B) (i) For school districts seeking a transitional kindergarten or full-day kindergarten facilities grant, the school district is located in an underserved community with a high population of pupils who are eligible for free or reduced-price meals pursuant to subdivision (a) of Section 42238.01.

(ii) For school districts seeking a preschool facilities grant, the school district is located in an underserved area, as defined in Section 8205, that is prioritized to receive funds for the California state preschool program according to the

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prioritization process described in Section 8210.

(3) Except for school districts that meet the requirements for financial hardship pursuant to Section 17075.10 and as specified in paragraph (4), a school district that applies for a grant pursuant to this section for new construction shall provide 50 percent of the cost of the project, and a school district that applies for a grant pursuant to this section for a retrofit project shall provide 40 percent of the cost of the project.

(4) Except for school districts that meet the requirements for financial hardship pursuant to Section 17075.10, a school district shall provide 25 percent of the cost of the project, whether the project is for new construction or retrofit, if the school district does either of the following:

(A) Converts a part-day kindergarten program to a full-day kindergarten program. A school district that was awarded a grant from funds appropriated pursuant to paragraph (3) of subdivision (a) and met the requirements of this paragraph shall have its grant amount adjusted from funds appropriated pursuant to paragraph (4) of subdivision (a) to reflect the requirements of this paragraph.

(B) Commencing with the 2021–22 fiscal year, offers, or expands enrollment in, a California state preschool program or transitional kindergarten program.

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SFP Regulation Section 1859.81, Financial Hardship, states in part:

Except for Joint-Use Projects and Career Technical Education Facilities Projects, a district is eligible for Financial Hardship to fund all or a portion of its matching share requirement after demonstrating the requirements of (a), (c), and (d) below:

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(c) The district has made all reasonable efforts to fund its matching share of the project by demonstrating it is levying the developer fee justified under law or an alternative revenue source equal to or greater than the developer fee otherwise justified under law at the time of request for hardship and the district meets at least one of the following:

(1) The current outstanding bonded indebtedness of the district issued for the purpose of constructing school facilities in accordance with Education Code Section 17072.35 or 17074.25 as appropriate, at the time of request for Financial Hardship status, is at least 60 percent of the district's total bonding capacity. Outstanding bonded indebtedness includes that part of general obligation bonds, Mello-Roos Bonds, School Facility Improvement District Bonds and certificates of participation which the district is paying a debt service that was issued for capital outlay school facility purposes.

(2) The district had a successful registered voter bond election for at least the maximum amount allowed under Proposition 39 within the previous two years from the date of request for Financial Hardship status. The proceeds from the bond election that represent the maximum amount allowed under the provisions of Proposition 39 must be used to fund the district's matching share requirement for SFP project(s).

(3) It is a County Superintendent of Schools.

(4)(A) For applications received on or before October 30, 2024, the district's total bonding capacity at the time of the request for Financial Hardship status is \$5 million or less.

(B) For applications received on or after October 31, 2024, the district's total

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bonding capacity at the time of the request for Financial Hardship status is \$15 million or less. Beginning July 1, 2026, the total bonding capacity amount shall be adjusted each fiscal year thereafter by the inflation adjustment computed pursuant to paragraph (2) of subdivision (d) of Education Code Section 42238.02.

(5) Other evidence of reasonable effort as approved by the Board.

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California Code of Regulations Subgroup 5.8 Relating to the California Preschool, Transitional Kindergarten and Full-Day Kindergarten Facilities Grant Program

Section 1860.14, Hardship Assistance and Financial Hardship, states in part:

A School District shall qualify for hardship assistance by demonstrating a Financial Hardship, as provided in this Section, which prevents the School District from funding all or a portion of the matching share requirement for a Program grant.

A School District is eligible for a financial hardship grant to fund all or a portion of its matching share requirement after demonstrating the requirements of subsections (a), (b), and (c) below:

(a) The School District has made all reasonable efforts to fund its matching share of the project by demonstrating it is levying the developer fee justified under law or an alternative revenue source equal to or greater than the developer fee otherwise justified under law at the time of request for hardship and the School District meets at least one of the following:

(1) The current outstanding bonded indebtedness of the School District, issued for the purpose of constructing school facilities at the time of request for financial hardship status, is at least 60 percent of the District's total bonding capacity. Outstanding bonded indebtedness includes that part of general obligation bonds, Mello-Roos Bonds, School Facility Improvement District Bonds and certificates of participation which the district is paying a debt service that was issued for capital outlay school facility purposes.

(2) The School District had a successful registered voter bond election for at least the maximum amount allowed under Proposition 39 within the previous two years from the date of request for financial hardship status. The proceeds from the bond election that represent the maximum amount allowed under the provisions of Proposition 39 must be used to fund the School District's matching share requirement for the Program project(s).

(3) The School District's total bonding capacity at the time of the request for financial hardship status is \$5 million or less

(4) It is a County Superintendent of Schools.

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