San Bernardino County
Superintendent of Schools
Transforming lives through education

Ted Alejandre
County Superintendent

May 27, 2015 Bulletin No. 15-063

To: Chief Business Officials (K-12, ROPs)
San Bernardino County School Districts

Subject: **COMMON MESSAGE 2015-16 GOVERNOR'S MAY REVISION**

Since May 2008, county office chief business officials have crafted common messages to give guidance to school districts on assumptions for budget and interim reports. The goal of the Business and Administration Steering Committee (BASC) is to provide county office chief business officials with a consistent message that can be used in providing this guidance to school districts.

This edition of the Common Message is intended to provide information and guidance to assist LEAs in developing 2015-16 adopted budgets. It contains information related to the Governor's May Revision Budget Proposal.

If you have any questions, please contact your Business Services Advisor at (909) 386-9676.

Sincerely,

Ted Alejandre
County Superintendent of Schools

Signed by Cynna Hinkle, Director
Business Advisory Services

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Significant Changes since January Governor's Budget Proposal

Summary of May Revision

The Governor released the May Revision to his January 2015-16 budget proposal on May 14, 2015. The May Revision State General Fund revenues increased from the January proposal by $6.7 billion over the three-year forecast period: 2013-14, 2014-15, and 2015-16. K-14 schools will receive $5.5 billion of the new general fund revenue which, with the inclusion of additional local property tax collections, produces an increase of over $6 billion in Prop. 98 funding. The Governor now estimates 2015-16 Prop. 98 spending at $68.4 billion. While most of the Governor's spending will be targeted toward one-time investments, K-12 schools received $2.4 billion in additional ongoing spending, most of which is directed toward 2015-16 Local Control Funding Formula (LCFF) gap funding ($2.1 billion).

- Prop. 98 K-14 spending increases:
  - $240 million in 2013-14
  - $3.1 billion in 2014-15
  - $2.7 billion in 2015-16
- Prop. 98 maintenance factor is reduced to $772 million by the end of 2015-16.
- Funding for the LCFF was significantly increased by an additional $2.1 billion to $6.1 billion, increasing the 2015-16 gap funding from 32.1% to 53.08%.
- One-time mandate repayments are an additional $2.4 billion for a total of $3.5 billion. The governor ascertains these one-time funds can be used to invest in professional development, new teacher induction, instructional materials and technology expansions. These funds are considered unrestricted, but will offset any applicable mandate claim reimbursements for LEAs.
- Adult Education - the May Revision maintains the $500 million to establish the Adult Education Block Grant program providing funds for adult education to school districts and community colleges.
- $150 million additional for a total of $900 million in one-time Prop. 98 funding in each of the next three years to support a transitional Career Technical Education (CTE) Incentive Grant. Additionally the minimum local-to-state funding match requirement was raised to 1.5:1 in 2016-17 and 2:1 in 2017-18.
- Cost of Living Adjustment to categorical programs outside of LCFF - reduced to 1.02%.
- $1.2 million increase to the K-12 Mandated Program Block Grant.
- $60.1 million directed to Special Education in response to recommendations provided by the statewide Special Education Task Force. $50.1 million is ongoing and $10 million is one-time.

- Increased funding (Prop. 98 and non-Prop. 98) for both subsidized child care and State Preschool Program.

- $4.6 million one-time Prop. 98 increase for Quality Education Investment Act (QEIA) transition funding in 2015-16.

Planning Factors for Budget Development and MYPs

Key planning factors for LEAs to incorporate into budget development and multiyear projections are listed below and based on the latest information available as of May 2015.

	Fiscal Year			
Planning Factor	**2014-15**	**2015-16**	**2016-17**	**2017-18**
COLA (DOF)	0.85%	1.02%	1.60%	2.48%
LCFF Gap Funding Percentage (DOF)	29.97%	53.08%	37.40%	36.74%
STRS Employer Rates	8.88%	10.73%	12.58%	14.43%
PERS Employer Rates (PERS Board / Actuary)	11.771%	11.847%	13.05%	16.6%
Lottery – unrestricted per ADA*	$128	$128	$128	$128
Lottery – Prop. 20 per ADA*	$34	$34	$34	$34
Mandated Cost per ADA / One Time Allocations (DOF)	$67	$601	$0	$0
Mandate Block Grant for Districts – K-8 per ADA**	$28	$28	$28	$28
Mandate Block Grant for Districts – 9-12 per ADA**	$56	$56	$56	$56
Mandate Block Grant for Charters – K-8 per ADA**	$14	$14	$14	$14
Mandate Block Grant for Charters – 9-12 per ADA**	$42	$42	$42	$42
State Preschool Daily Reimbursement Rate**	$22.28	$22.63	$22.63	$22.63
General Child Care Daily Reimbursement Rate **	$36.10	$36.67	$36.67	$36.67
Routine Restricted Maintenance Account	1%	3%	3%	3%

*** Lottery funding will no longer include the 2007-08 ROP and Adult Education ADA in 2015-16 and beyond.**

****These rates have not yet been updated with May Revision projections.**

GUIDANCE FOR ADOPTED BUDGETS

Situational Guidance and Multiyear Projections

The Governor's May Revision assumes significant growth in Prop. 98 revenues. The additional revenue and commitment toward LCFF gap funding is good news for LEAs. However, this surge in funding also serves to highlight the volatility of state revenues. Under LCFF, rapid revenue growth can create expenditure challenges, such as the need to accelerate progress toward the K-3 class size ratio of 24:1, increasing competition for a limited pool of qualified teaching candidates, increasing pension costs borne by employees and employers, and increasing facility needs and costs.

LEAs face increasing pressure to improve outcomes for students, which may require the ability to reallocate resources if existing programs are not producing the desired results. Every LEA faces its own particular set of educational challenges, and there is no "one size fits all" plan. Similarly, every LEA faces its own particular set of financial risk factors based on current reserve levels, enrollment trends, bargaining agreements, degree of revenue volatility and a host of other local and statewide factors.

Each LEA's situation is unique and in such a dynamic and uncertain operating environment there are a few key aspects to maintaining fiscal solvency and protecting the integrity of educational programs that apply to all districts:

1. Maintaining adequate reserves to allow for unanticipated circumstances (with the *adequate* level being based on each LEA's unique situational assessment).
2. Maintaining fiscal flexibility by limiting commitments to future increased expenditures based on projections of future revenue growth, and/or establishing contingencies that allow expenditure plans to be changed if needed.

LEAs are advised to use the FCMAT LCFF Calculator and the Planning Factors listed at the beginning of this document in building multiyear projections (MYPs). If alternate assumptions are used, the source of those assumptions and the reasons for adopting them should be clearly documented. Transparency is essential for maintaining an LEA's credibility. Clearly communicating and explaining budget assumptions to stakeholders is critical.

LEAs should also consider building in contingencies for emerging expenditure requirements such as impacts of the Affordable Care Act, the rising costs of health insurance, AB 1522 sick leave accrual for part-time employees, possible pressure to prefund other post-employment benefits (OPEB) programs, or future facility needs to name a few examples.

San Bernardino County Superintendent of Schools Office will asses each district's unique circumstances and risk profiles to determine the district's ability to absorb fiscal shocks and maintain adequate reserves. District's should use the FCMAT's Fiscal Health Risk Analysis: Key Fiscal Indicators http://fcmat.org/wp-content/uploads/sites/4/2015/05/Fiscal-Health-Risk-Analysis-Kk-12-5-2015-final.pdf for assessing the district's risk factors.

Reserves

County offices continue to reinforce the need for reserves over the minimum reserve requirements. The experience of the most recent recession has clearly demonstrated these minimum levels are not sufficient to protect educational programs from severe disruption in an economic downturn. The typical 3% reserve minimum represents less than two weeks of payroll for many districts. Many LEAs have established reserve policies calling for higher than minimum reserves, recognizing their duty to maintain fiscal solvency. The adequacy of a given reserve level should be assessed based on the LEA's own specific circumstances. Numerous reasonable models are available for consideration. Examples include:

- The Government Finance Officers Association recommends reserves equal to two months of average general fund operating expenditures, or about 17%.

- Rating agencies like Fitch or Moody's typically assess the adequacy of a district's reserves by comparing them to statewide averages, which have hovered around 15% for California unified school districts in recent years.

- The Fiscal Crisis and Management Assistance Team emphasizes the need to assess not only fund balance but also actual cash on hand.

The most recent attempts to repeal current law related to a potential limitation to the amount of district reserves have stalled in the legislature's committees in past weeks. In addition, the May Revision does not address this issue.

As a reminder, the public hearing and transparency requirements imposed by SB858 (EC 42127(a)(2)(B)) go into effect starting with 2015-16 adopted budgets regardless of whether or not the reserve cap is triggered.

Negotiations

With LCFF the art of negotiations has changed drastically. ADA is just one of the many complexities of budgeting revenue, and districts must now consider the type and grade level of students when anticipating revenue increases and decreases.

The large projected increase in gap funding in 2015-16 may lead to smaller year over year increases in future years, just as the rising STRS and PERS contributions rates begin to ramp up. Additionally, the continued presence of one-time funding can obscure the collective bargaining environment. For this reason, LEAs are encouraged to exercise caution when bargaining ongoing commitments for salaries or health care benefits.

LEAs should recognize and be mindful that the LCFF gap percentage and the proposed one-time funding may change from the current version included in the May Revision compared to the final state budget adoption. It is important to remember that along with higher gap funding percentages comes an accelerated requirement to meet class size reduction in grades K-3, along with the requirement to increase and improve services for targeted students with supplemental and concentration funds.

Although a large increase to gap funding is proposed, districts should take caution not to settle negotiations with bargaining units based on May Revision figures, as gap funding may change with the adopted 2015-16 budget.

Proposition 98 / Revenues

Fiscal Year **2014-15**	Projected Statewide Revenue	Prop. 98 Calculation	Property Tax Portion of Prop. 98	State Budget Portion of Prop. 98	Non-Prop. 98 Budget	Ending Balance
Jan. 2014	$106.1	$61.6	$16.5	$45.1	$61.7	$3.2
May 2014	107.0	60.9	16.4	44.5	63.3	3.1
Adopted	107.1	60.9	16.4	44.5	63.5	3.0
Jan. 2015	108.0	63.2	16.6	46.6	65.1	1.4
May 2015	111.3	66.3	16.7	49.6	64.9	2.4

Fiscal Year **2015-16**	Projected Statewide Revenue	Prop. 98 Calculation	Property Tax Portion of Prop. 98	State Budget Portion of Prop. 98	Non-Prop. 98 Budget	Ending Balance
Jan. 2015	$113.4	$65.7	$18.7	$47.0	$66.3	$1.5
May 2015	115.0	68.4	19.0	49.4	65.9	2.1

(all numbers in billions)

The 2015-16 May Revision to the state budget brings the potential for more than $6.1 billion in additional Prop. 98 funding for K-14, compared to the Governor's January budget proposal. $241 million of the increase is attributable to 2013-14 and will yield one-time funding. The current year, 2014-15 receives an increase of Prop. 98 funding from $63.2 to $66.3 billion. The Governor's May proposal for 2015-16 shows an additional $2.7 billion over his January proposal.

Another way to look at the May Revision is to compare it to the 2014-15 Adopted State budget. The proposed 2015-16 budget amends the current year Prop. 98 allocation from $60.9 billion to $66.3 billion, an increase over adopted levels of $5.4 billion. The proposed 2015-16 budget would raise Prop. 98 to $68.4 billion, or $7.5 billion more than current funding levels.

Spike Protection

The year over year increase from 2013-14 to 2014-15 is so large that for only the second time in Prop. 98 history are its spike protection provisions coming into play. Spike protection limits the amount of Prop. 98 growth that applies to the carry-forward calculation. In normal years, all of the Prop. 98 base carries forward to the next year; but in times of exceptional growth, some of the growth only applies as a one-time bonus and does not carry forward. In 2014-15, $424 million of the Prop. 98 base was affected by this provision.

Local Control Funding Formula

Full implementation of LCFF is still anticipated to be in 2020-21. It is recommended that LEAs use the LCFF Calculator located on the FCMAT website at http://fcmat.org/local-control-funding-formula-resources/. Additional information about LCFF can be found at http://www.cde.ca.gov/fg/aa/lc/.

The following amounts should be used for target LCFF base grants and grade span adjustments, which include the estimated COLA:

Grade Level	2015-16 Target Base Grant	2015-16 Target GSA	2016-17 Target Base Grant	2016-17 Target GSA	2017-18 Target Base Grant	2017-18 Target GSA
Grades TK-3	$7,083	$737	$7,196	$748	$7,374	$767
Grades 4-6	$7,189		$7,304		$7,485	
Grades 7-8	$7,403		$7,521		$7,708	
Grades 9-12	$8,578	$223	$8,715	$227	$8,931	$232

The Department of Finance (DOF) released the following updates to the estimated gap factors and COLA percentages as of May 2015:

	Actual 2014-15	Estimate 2015-16	Estimate 2016-17	Estimate 2017-18
LCFF Gap Funding Percentage	29.97%	53.08%	37.40%	36.74%
Annual COLA	0.85%	1.02%	1.60%	2.48%

One-Time Funding: Common Core and Other Local Priorities

The January Budget proposed $1.1 billion in discretionary one-time Prop. 98 mandate repayments for school districts, charter schools, and county offices of education. The May Revision expands on the January proposal by proposing an additional $2.4 billion in Prop. 98 resources for a total of $3.5 billion in one-time funding. It is estimated this one-time funding could result in a payment equivalent to about $601 per ADA.

The Governor identifies investments in professional development, teacher induction for beginning teachers, and instructional materials and technology as likely expenditures LEAs will make with these funds. All of the funds provided are unrestricted and will offset any applicable mandate reimbursement claims for these entities.

The May Revision underscores that the discretionary, one-time funds are intended as a two-year investment to substantially reduce the outstanding mandates debt owed to LEAs, consistent with the Administration's goal to pay down state debt.

Minimum State Aid

Minimum State Aid (MSA) is the level of funding to ensure LEAs receive at least the same amount in state aid as received in 2012-13, adjusted for changes in ADA and property taxes. MSA applies primarily in two instances: basic aid districts because categorical funding was not previously offset by local property taxes, and necessary small school districts because of loss of eligibility under new rules. The LCFF cleanup trailer bill released by the Administration in February proposed amending Education Code 42238.03(e) to clarify that the MSA guarantee is intended to remain in effect indefinitely.

Home to School Transportation

Beginning in 2015-16, the Governor proposes to shift transportation funding, which had been sent directly to a joint powers agency (JPA), to the JPA's member districts. The proposal gives the JPAs the ability to determine the amount of funding each member district will receive. Member districts will be required to use the funds received on transportation expenditures in the district or through support of the JPA.

The money allocated to the district will be counted as an add-on to the district's base grant. The JPAs will need to notify the state by September 30, 2015 of the distribution amounts.

The maintenance of effort (MOE) for all districts receiving transportation funds does not expire. The level of expenditures must be at least equal to the lesser of the amount spent in 2012-13 or the amount of the transportation revenue (home to school, special education and bus replacement) received in 2012-13.

Special Circumstances

LCAP

LEAs are reminded the Local Control Accountability Plan (LCAP) is about student educational outcomes and is not a replacement to the required budget documents.

Pursuant to Education Code 52062(b)(1) the governing board shall hold at least one public hearing to provide the public the opportunity to comment on the goals, specific actions and expenditures proposed to be included in the LCAP or the annual update. The LCAP public hearing shall be held at the same meeting as the budget public hearing as required by EC 42127(a)(1). The LCAP and the budget must be adopted at a separate public meeting held at least one day after the public hearing meeting, and the LCAP must be adopted before the budget can be adopted by the governing board.

Districts are encouraged to work with their county offices of education during the development of the LCAP. The CCSESA LCAP Approval Manual is a valuable resource for statute requirements and is accessible at http://ccsesa.org/special-projects/lcap-approval-manual/

LCAP and Uniform Complaint

As part of the legislation adopting the LCFF and LCAP, the Legislature enacted Education Code Section 52075, which states an individual may file a complaint under the Uniform Complaint Procedures alleging a school district, county superintendent of schools, or a charter school has not complied with the requirements for adopting an LCAP.

The complaint may be filed anonymously. A complainant not satisfied with the decision of a school district, county superintendent of schools, or charter school may appeal the decision to the Superintendent of Public Instruction and shall receive a written appeal decision within 60 days of the Superintendent of Public Instruction's receipt of the appeal.

If a school district, county superintendent of schools, or a charter school finds merit in the complaint, or the Superintendent of Public Instruction finds merit in an appeal, the school district, county superintendent of schools, or charter school shall provide a remedy to all affected pupils, parents, and guardians.

Information regarding the ability of individuals to file a complaint under the Uniform Complaint Procedures alleging failure to comply with the LCAP requirements shall be included in the annual notification distributed to pupils, parents and guardians, employees, and other interested parties. School districts, county superintendents of schools, and charter schools are required to establish local policies and procedures to implement the provisions of Section 52075.

Basic Aid

The determination that a district is a basic aid district is made exclusive of funds received through the Education Protection Account (EPA) and further excludes revenues received through the LCFF hold harmless calculation, including previously received categorical funds. A basic aid district is defined as a district that does not receive state aid to fund the floor entitlement for transition to the LCFF or any portion of the LCFF at full implementation.

Basic aid districts are subject to the LCAP and the spending regulations under LCFF.

Basic aid districts will receive minimum state aid (MSA) funding of no less than the amount received in 2012-13. The MSA amount is calculated net of the 8.92% fair share reduction. The LCFF cleanup trailer bill released by the Administration in February proposed amending

Education Code 42238.03(e) to clarify that the MSA guarantee is intended to remain in effect indefinitely.

Miscellaneous Basic Aid Revenues:

- Minimum guarantee of $120 per ADA (remains unchanged).

- EPA $200 per ADA ongoing funding is dependent on basic aid status, until EPA's temporary taxes expire and is in addition to the $120 basic aid guarantee. EPA dollars are set to expire at the end of 2018-19.

- District of Choice is ADA funded at 70% of district of residence LCFF base grants, transitional or funded amount until full implementation (excluding supplemental and concentration grants). Education Code Section 48310 becomes inoperative on July 1, 2016.

- Charter School Basic Aid Supplement ADA is funded at 70% of district of residence LCFF base grants, transitional or funded amount until full implementation (excluding supplemental and concentration grants).

- Court-ordered transfer ADA is funded at 70% of district of residence LCFF base grants, transitional or funded amount until full implementation (excluding supplemental and concentration grants). These students will be included in the receiving district's unduplicated pupil count.

Districts that may be transitioning out of basic aid to state aid status will need to work closely with their county office of education to track the fiscal implications of the transition and ensure the district can meet its cash flow needs during transition. The guarantee of $200 per ADA from EPA is dependent on basic aid status, and districts that transition out of basic aid will lose additional EPA revenue for every state dollar they receive as a state-funded LCFF district. In addition, under current law, districts that lose their basic aid status during transition to full implementation will have their MSA amount held to the fair share reduction amount in their formula.

Charter Schools

LCFF for charters is largely identical to district funding, except in certain circumstances charter funding will be constrained by factors related to the district in which the charter is physically located.

COE Revenue Transfers

Prior to the 2013-14 fiscal year, revenue limit funds for students in county-operated special day classes and community schools had been transferred to COEs based on the revenue limit of the student's district of residence. Under the LCFF, these funds instead flow to the student's district of residence. Transfers of funds for these COE-served students, between districts and COEs, have been handled at the local level. The CDE has provided an option to facilitate transfer of funding between districts and COEs, beginning in 2014-15. Absent the voluntary election for state facilitation of the transfer by both entities, COEs and districts must continue to make local arrangements related to funding for these students.

The LCFF provides that if a district enrolls its students in a COE program, the district will need to work with the COE to transfer the associated LCFF revenue to the COE or work out an alternative agreement for those students. In some instances these transfers may involve students attending COE programs in another county**.**

A COE receives funding directly from the state for students meeting any of these provisions in Education Code Sections 2574 and 2575:

i. Probation-referred pursuant to Sections 300, 601, 602, and 654 of the Welfare and Institutions Code.
ii. On probation or parole and not in attendance in a school.
iii. Expelled for any of the reasons specified in subdivision (a) or (c) of Section 48915.

If a COE enrolls a student not funded pursuant to the above, any attendance generated by that student is credited to the school district of residence and the associated LCFF state aid will be apportioned to the district of residence. This impacts various programs operated by the COE: special day class, opportunity and community schools.

Each COE will have the opportunity to enter up to two transfer rates by district of residence, by grade span, when it reports District Funded County Program ADA. If the COE enters a transfer rate for ADA served, and the district has selected to transfer to the COE, the CDE will administer the transfer of funding based on the rates reported by the COE. If either condition is not met, the CDE will not transfer funding for the ADA. Additional information, in the form of FAQs, is available on the CDE website at http://www.cde.ca.gov/fg/aa/pa/sdfundcoeservfaq.asp.

A district may choose to select some, none, or all of the COEs that serve its students. This screen is only available at P-1. If a district would like to modify its selection after P-1, a revised P-1 file must be submitted. This selection will be required on an annual basis.

Independent Study (IS)

Modified IS Student–Teacher Ratio Requirements

Beginning 2014-15, legislation requires separate calculations by grade span – K-3, 4-6, 7-8, and 9-12 (not including the average of special education classes or necessary small schools). Due to the late timing of the legislation, and late availability of the requisite instructions for making the calculations, LEAs can choose to calculate ratios by grade span or on an overall LEA-wide basis.

If calculating by grade span, the legislation allows the ratio requirement to be waived if an alternative ratio is negotiated as part of a local collective bargaining agreement. If existing bargaining language established alternative ratios, a current memorandum of understanding (MOU), signed after the budget act, should indicate the ratio that was previously bargained. *Note that for 2014-15 this collectively bargained option is only available to LEAs calculating ratios by grade span.*

Beginning 2015-16 there are proposed statutory amendments that will eliminate the grade span requirement and reverts the calculation back to an LEA-wide ratio. If these amendments are not enacted, LEAs will be required to calculate the independent study ratio by grade span.

The applicable pupils-to-certificated-employee grade span ratios for a charter school may be calculated by using a fixed pupils-to-certificated-employee ratio of 25-to-1, or the prior year comparative ratio for the largest unified district in the county in which the charter operates.

Note: The Department of Education has issued guidance for calculating the independent study ratios for 2014-15 and 2015-16 at www.cde.ca.gov/sp/eo/is/calculations.asp.

Reduced Administrative Requirements

Beginning in 2014-15, IS programs are allowed to store certain student records electronically and to extend written learning contracts across the entire school year rather than a single semester. In addition, teachers no longer have to sign and date work samples.

Course Based Independent Study

In the 2015-16 school year, legislation allows local governing boards to operate a new and separate course based IS program. Under this program, entire IS courses are approved (rather than individual assignments) as equivalent to a given amount of instructional time. The local governing board is required to certify annually these courses are of the same quality and rigor as classroom-based courses and meet relevant state and local academic standards. Students enrolled in these courses need to demonstrate "satisfactory academic progress" as determined bi-monthly by an appropriately credentialed teacher, and a separate IS ratio must be calculated and met. This IS program has several conditions of apportionment to generate ADA. Refer to Education Code Sections 51749.5 through 51749.6.

Necessary Small Schools (NSS)

Current law establishes eligibility for Necessary Small School (NSS) funding for high schools with fewer than 287 students that are the only comprehensive high school in a unified district and the district has 50 or fewer pupils per square mile of school district territory. This sunsets on July 1, 2017. As currently written, EC Section 42280 allows funding based on prior year eligibility, so impacted schools can plan on receiving NSS funding in 2017-18 if they qualified as NSS in 2016-17.

For NSS, the minimum state aid is based on the NSS allowance received in 2012-13 and adjusted for property taxes.

Cash Management

The Governor's 2015-16 May Revise includes $897.184 million to eliminate all K-12 cash deferrals in 2014-15. Even though all cash deferrals are proposed to be eliminated, districts should continue to monitor cash flow to ensure there is sufficient cash to meet all obligations.

Cross Fiscal Year Principal Apportionment Deferrals

Time Frame	2013-14	2014-15	2015-16
April to July	$917,542,000	Eliminated	Eliminated
May to July	$2,352,430,000	Eliminated	Eliminated
June to July	$2,301,128,000	Eliminated	Eliminated
Totals	**$5,571,100,000**	**$0**	**$0**

For the 2014-15 fiscal year, the State Controller's Office has posted estimated payment dates for K-12 principal apportionments, lottery apportionments, and Education Protection Account (EPA)

Proposition 30 apportionments through December 2015. The apportionment dates for May 2015 through December 2015 are:

	May 2015	June 2015	July 2015	Aug. 2015	Sept. 2015	Oct. 2015	Nov. 2015	Dec. 2015
K-12 Principal Apportionment	5/27	6/30	7/29	8/27	9/28	10/28	11/24	12/29
K-12 Proposition 30 EPA		6/26			TBD			TBD
K-12 Lottery		6/26			9/30			12/30

Education Protection Account

The Governor's May Revise estimates 2015-16 EPA revenues to be $7.15 billion. The California Department of Education posts information, frequently asked questions and entitlement details on its website (http://www.cde.ca.gov/fg/aa/pa/epa.asp).

Funding Outside of the LCFF

Adult Education

The May Revision maintains the $500 million in Prop. 98 General Fund from the January budget proposal to establish the Adult Education Block Grant program, providing funds for adult education to school districts and community colleges. The May Revision strengthens this proposal and is consistent with a number of recommendations made by the education community. These adjustments include:

Eliminate Allocation Boards within Each Consortium. Each consortium will be required to create rules and procedures regarding how it will make decisions, based on state guidelines that require consortia to seek and respond to input on proposed decisions from interested stakeholders and to make decisions publicly.

Require More Robust, but Less Frequent, Planning. Each consortium will develop a comprehensive plan for adult education in its region at least once every three years, with annual updates.

Provide Greater Funding Certainty. The Superintendent of Public Instruction (SPI) and the Chancellor of the California Community Colleges will certify maintenance of effort levels by July 30, and will determine the allocation of any remaining block grant funds to consortia by October 30. Beginning in 2016, the SPI and Chancellor will provide preliminary allocations to consortia following the release of each Governor's Budget, and final allocations, along with preliminary projections for two future years, shortly after each Budget is enacted. At the consortia level, allocations to districts will be at least equal to their distribution from the previous year, with limited exceptions. Use of a local fiscal administrator is no longer required.

Integrate Adult Education Programs and Funding Streams. The SPI and Chancellor will, by January 31, 2016, develop and submit a plan to distribute Workforce Innovation and Opportunity Act Title II and Perkins funding using the consortia structure in future years. School districts, county offices of education, and community college districts that receive other specified state funds or federal funds for adult education must be participating members of an adult education consortium.

Career Technical Education

The May Revision includes a proposal to provide $900 million in one-time funding for competitive Career Technical Education (CTE) Incentive Grants to support a transitional program for each of the next three years: $400 million in 2015-16, $300 million in 2016-17 and $200 million in 2017-18.

This schedule reflects the Governor’s commitment to provide one-time incentives for transitioning districts to programs they can sustain with ongoing local revenue, primarily LCFF 9-12 grade span adjustment funds. School districts, county offices of education and charter schools receiving funding from this program would be required to provide a dollar-for-dollar match in the 2015-16 year, a 1.5 to 1 match in 2016-17 and a 2 to 1 match in 2017-18. This will assist local educational agencies and their transition to support CTE with their LCFF apportionments and other existing resources after this program expires.

Career Pathways Trust grant funds are eliminated from the list of allowable sources of local matching funds. Priority for grant awards would be provided to applicants administering programs located in rural districts or regions with high dropout rates.

Child Care and State Preschool

- CalWORKs Stage 2 - An increase of $46.8 million in non-Prop. 98 funds, to reflect an increase in the number of new Stage 2 beneficiaries and an increase in the cost of providing care. Total base cost for Stage 2 is $395.4 million.

- CalWORKs Stage 3 - An increase of $2 million in non-Prop. 98 funds to reflect minor adjustments in caseload and the cost of providing care. Total base for Stage 3 is $265.5 million.

- Capped Non-CalWORKs Programs - A net decrease of $7.2 million ($3.1 million Prop. 98 and $4.1 million in non-Prop. 98) to reflect a change in the cost-of-living adjustment downwards from 1.58% at the Governor’s Budget to 1.02% per the May Revision and a net decrease of $2.5 million ($1.1 million in Prop. 98 and $1.4 million non-Prop. 98) to reflect a change in the population of 0- to 4-year-old children.

- Child Care and Development Funds - A net increase of $17.7 million federal funds in 2015-16, an additional $5.5 million in one-time general-purpose funds from 2014-15, and an additional $3.2 million in one-time quality funds from 2014-15. In addition, the May Revision identifies basic priorities for possible midyear federal Child Care and Development Block Grant funding adjustments, and establishes the Infant and Toddler Quality Rating and Improvement System Block Grant with anticipated federal quality funds available beginning October 1, 2016.

- State Preschool - An increase of $13.5 million Prop. 98 to reflect 2,500 part-day State Preschool slots as described in the Special Education section, as well as various technical adjustments including an adjustment in the cost of living and a change in the population of 0- to 4-year-old children.

- Early Head Start/Child Care Partnership Grant - An increase of $2.4 million in federal funds to provide Early Head Start services to an additional 260 infants and toddlers in 11 northern counties.

Federal Funding

A House and Senate Budget Conference Committee brought two resolutions together into a single Budget Resolution (S.Con.Res.11) setting the federal budget limits for Fiscal Year 2016. Fiscal Year 2016 means 2016-17 for forward funded programs such as Title I, Title II, IDEA, and Perkins Career Education. Since Impact Aid is not forward funded, Fiscal Year 2016 means 2015-16. The Budget Resolution funding levels could trigger Budget Control Act FY 2016 sequestration cuts and reconciliation instructions to authorizing committees.

For budgeting purposes, the following multiyear assumptions are recommended for LEAs with respect to federal education funding:

- 2015-16: no change for federal education funding, and Impact Aid funding could incur a potential reduction of 2.8%.

- 2016-17: a potential reduction of 2.8% in federal education funding.

Secure Rural Schools and Communities Act (SRS) Forest Reserve Funding

An extension of the Secure Rural School Forest Reserve funding passed both the House and Senate, and was signed by President Obama April 16, 2015. The funding formula uses the 2013-14 payments as a base, reduced by 5% for 2014-15, and an additional 5% reduction for 2015-16. The 2014-15 calculation will be reduced further for the payment received in February that was based on 25% of actual harvest (the original law from 1908). This two-year reauthorization also includes expedited funding within 45 days of passage.

Foster Youth Services

The state Foster Youth Services program provides support services for foster children, who often experience multiple placements in foster care. The Foster Youth Services grant programs are still available and were not included in the list of categorical programs rolled into the LCFF. County superintendents retain the responsibility to coordinate services for foster youth among child welfare agencies, schools, juvenile court and probation. This also includes the efficient transfer of health and education records among those agencies. As a categorical program funded outside the LCFF, Foster Youth is provided with a 1.02% COLA in the Governor’s May Revision.

Medi-Cal Administrative Activities

On October 7, 2014, the California Department of Health Care Services (DHCS) received a settlement letter from the federal Centers for Medicare and Medicaid (CMS) that provided the terms for the end of the DHCS Reasonableness Test Criteria (RTC) comprehensive review process. The letter also provided for payment of the deferred claims. Quarterly claim invoices less than $25,000 each from 2010-11 and 2011-12 are being paid in full; larger invoices will have a percentage paid once all of the smaller invoices have been paid.

DHCS anticipates the reduced invoices should be forwarded in the coming month. A recasting (reconciliation) will occur for the claims in excess of $25,000, once the Random Moment Time Sampling (RMTS) process is implemented and there are a sufficient number of quarters with which to back cast. This methodology will be implemented for all deferred periods, paid and unpaid. DHCS has received approval from CMS for an RMTS back casting methodology that reflects the use of four quarters of statewide RMTS data beginning with state fiscal year (SFY) 14-15 Q3 and Q4 (January 1, 2015 through June 30, 2015) and SFY 15-16 Q2 and Q3 (October 1, 2015 through March 31, 2016).

Claims from 2012-13 and 2013-14 will be paid at 90% for claims under $25,000, 75% for claims $25,001-$50,000 and 40% for claims over $50,000. DHCS expects to begin processing payments for the 2013-14 invoices after the deferred claims have been completed. Because RMTS was implemented in January 2015, and neither time studies nor RMTS data collection took place during the first half of the year, claims for the first two quarters of 2014-15 will be the same as the first two quarters of 2013-14.

Initial payments for the smaller invoice amounts have begun to flow from DHCS. It can take a couple of months for claims to be paid. It is recommended that LEAs budget for MAA revenues only as they are received. LEAs should consult with their LEA MAA Coordinator or the Regional LEC Coordinator for further information regarding the new survey methodology, which began January 1, 2015.

Proposition 39

The May Revision decreases the amount of energy efficiency funds available to K-12 schools in 2015-16 by $6.7 million to $313.4 million to reflect reduced revenue estimates.

All LEA facilities, including leased facilities, are eligible. In addition to classrooms, other school building areas such as auditoriums, multipurpose rooms, gymnasiums, cafeterias, kitchens, pools, and special purpose areas (school/district office, library, media center, and computer and science labs) can be considered for energy efficiency measures and clean energy installations.

The last day for LEAs to submit a fiscal year 2014-15 Energy Expenditure Plan (EEP) is June 30, 2015. EEPs received by the Energy Commission on or after July 1, 2015 will be considered fiscal year 2015-16 submittals. Submitting an application with an incorrect fiscal year may delay the processing of the application.

Schedule:

Program Fiscal Years	2013-14 through 2017-18
Two fiscal year combined funding award requests	September 1st (annually)
Award calculation completed by CDE	October 30th (annually)
SSPI begins allocating awards for approved multiple-year energy expenditure plans	January (annually)
LEAs project completion reporting	Ongoing
LEAs expenditure reports to Citizens Oversight Board (COB) and Energy Commission	October 1st (annually beginning 2015)
LEAs final encumbrance date	June 30, 2018
Final date all projects must be complete	June 30, 2020
LEAs final project reporting date	June 30, 2021

LEAs that do not submit an EEP in fiscal year 2014-15 will not lose their financial allotment. Any unused Proposition 39 awards will roll to the next fiscal year. For more information and to view program resources go to the web page at http://energy.ca.gov/efficiency/proposition39/.

The amendment process for Approved Energy Expenditure Plans is now available.

Please refer to the Proposition 39: California Clean Energy Jobs Act - 2015 Guidelines (page 33 – Energy Expenditure Plan Implementation Changes) for the list of significant changes requiring an amendment to an approved EEP. If an amendment is required, please contact your Energy Commission Project Manager.

Once an LEA completes all modifications to the EEP, the amended EEP is submitted back to the Energy Commission for review and approval, similar to the initial application submission process.

An EEP is allowed one amendment per fiscal year. For more information, please see Workshops, Webinars, Documents and Announcements page at:

http://www.energy.ca.gov/efficiency/proposition39/documents/index.html

Special Education

The California Statewide Special Education Task Force was formed in 2013 to examine the state of special education in California, analyze and consider best practices in the state and nation, and ultimately propose recommendations for improving the system. The task force, composed of parents, advocates, teachers, administrators, and experts in the field, began meeting in December 2013. After more than a year of deliberations, the task force released its final recommendations in March 2015, which focus on early learning, evidence-based school and classroom practices, educator preparation and professional learning, assessments and accountability structures, family and student engagement, and special education financing.

In response to these recommendations, the May Revision proposes $60.1 million in Prop. 98 funds ($50.1 million ongoing and $10 million one-time) in 2015-16 to implement selected program changes recommended by the task force, and makes targeted investments that improve service delivery and outcomes for all disabled students, with a particular emphasis on early education.

Significant Adjustments:

- $30 million in Prop. 98 to increase opportunities for infants and toddlers to receive early interventions. This funding will augment the Early Education Program for Infants and Toddlers with Exceptional Needs. Participation in the current program has historically been limited to LEAs that have received state funding for this program in the past. This investment will allow for new participation in the program, and provide an opportunity for the state to reassess the outdated funding model.

- $12.1 million in Prop. 98 to provide access to an additional 2,500 children in State Preschool. Priority for this funding is for children with exceptional needs.

- $6 million in Prop. 98 to increase the State Preschool reimbursement rates by 1%. The proposal would also require the State Preschool programs to:

    - Provide parents with information about accessing local resources for the screening and treatment of developmental disabilities.

    - Provide teachers training on behavioral strategies and targeted interventions to improve kindergarten readiness.

- A one-time investment of $10 million in Prop. 98 to provide technical assistance and build statewide resources to assist LEAs interested in implementing school-wide, data-driven systems of support and intervention. School-wide tiered systems provide scientifically based practices and interventions that are proportional to a student's needs. Research indicates schools that have implemented tiered systems are more successful at improving disabled student outcomes.

- The May Revision proposes an increase of $1.7 million in federal IDEA funds for state-level activities to expand the current Alternative Dispute Resolution Grant Program to all SELPAs in the state. On a limited scale, this program has proven successful in resolving special education disputes at the local level.

- An increase of $500,000 in federal IDEA state-level activity funds to develop resources and provide technical assistance to LEAs for implementation of the federally required State Systemic Improvement Plan for students with disabilities.

Audit Requirements

Proposed audit procedures to implement the legislative requirements are developed by the K-12 Audit Guide Committee convened by the State Controller's Office. The committee's recommendations ultimately must be approved by the Education Audit Appeals Panel (EAAP).

At its February 2015 meeting, the EAAP adopted a set of emergency regulations to amend the 2014-15 Audit Guide to address legislative changes in the conditions of apportionment of school funding that affects the current audit year. The updated Audit Guide booklet is available at www.eaap.ca.gov**.**

Most amendments to the 2014-15 Audit Guide are technical revisions. However, there are two areas of substantial change as follows:

- California Clean Energy Job Act added a reference for guidelines from the California Energy Commission and a reference for Prop. 39 planning from CDE.

- Unduplicated LCFF pupil counts added clarification for Provision 2 or 3 designated schools and instructions to use the CDE website for enrollment and unduplicated pupil counts.

At its April 2015 meeting, the EAAP adopted a set of emergency regulations to amend the 2015-16 Audit Guide. These changes will be effective July 1, 2015 for the annual 2015-16 fiscal year audit. The changes to the 2015-16 Audit Guide are as follows:

- Deleted ROP and Adult Education Maintenance of Effort sections as the two-year provision has passed.

- Common Core Implementation Fund section is deleted.

- Instructional time had some technical changes.

- A section was added to add audit procedures for course-based independent study.

- A section was added on immunizations, with three pages of additional audit procedures for immunizations. The Department of Public Health (DPH) requested a process to audit districts if they do not submit their annual immunization reports to DPH. If districts submit their reports for all schools and their conditional approvals were below 25% by the reporting date, then no additional procedures should be required. Familiarity with this new section is essential, as the penalties for noncompliance could be costly.

- A section was added for School Facility Bonds.

The updated audit guide booklet is available at www.eaap.ca.gov.

Retirement

Governmental Accounting Standards Board (GASB) 68

District will need to comply with GASB Statement No. 68 reporting requirements in the 2014-15 financial reports. A note included in the annual audit will report the district's proportionate share of the net pension liability (NPL) for both CalSTRS and CalPERS retirees. This number is determined by the district based on information provided by the retirement systems.

The CalSTRS audit for the year ending June 30, 2015 will be available in late October 2015. The report will include the agency's estimate of proportionate share of NPL for each CalSTRS employer in the state. There will be no charge for the information. Although districts are not required to use the figures from the CalSTRS audit, this information will likely be the starting point for the district's calculation of its share of the NPL. The proportionate share information for 2013-14 is included in CalSTRS last audit report in Schedule IX.

The report can be found by following this link: http://www.calstrs.com/sites/main/files/file-attachments/6-30-14_financial_statement_final.pdf

To validate its assumptions regarding the proportionate share calculation, Crowe Horwath, the external auditor for CalSTRS, will test census and contributions data for selected districts and county offices. CalSTRS has posted a webinar covering information regarding the audit, the required data, and how to submit the data. The webinar slides and audio of the presentation can be found on the agency's GASB 68 information page: http://www.calstrs.com/gasb-accounting-changes

CalPERS will provide proportionate share information at a fee of $350 per school employer. Further information can be found at the CalPERS GASB 68 webpage: http://www.calpers.ca.gov/index.jsp?bc=/employer/actuarial-gasb/home.xml

Districts should discuss with their auditors how they will use the information from the retirement agencies to comply with GASB 68.

Rates

At its April 15, 2015 meeting, the CalPERS Board approved an employer contribution rate of 11.847% for 2015-16. The agency estimates that the employer rate for 2016-17 will be approximately 13.05%. These rates are lower than previous estimates. No other future years' rates have been projected by the agency as this is written. Employee rates will continue at 7% for classic members, those who were members on December 31, 2012, and at 6% for new members. Districts are advised to budget CalPERS employer contribution at minimum of 14.4% up to 16.6% for 2017-18.

CalSTRS rates are set in Education Codes 22901.7 and 22950.5. Districts should project employer contribution rates at 10.73% for 2015-16, 12.58% for 2016-17 and 14.43% for 2017-18.

CalPERS

CalPERS Actual and Projected Rates			
2014-15 Actual	**2015-16 Projected**	**2016-17 Projected**	**2017-18 Projected**
11.771%	11.847%	13.05%	14.4% to 16.6%*

**Rates have not been updated by CalPERS for 2017-18 and beyond*

CalSTRS

CalSTRS Rates per Education Code Sections 22901.7 and 22950.5							
	2014-15	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Employer	8.88%	10.73%	12.58%	14.43%	16.28%	18.13%	19.1%
Member (2% at 60)	8.15%	9.20%	10.25%	10.25%	10.25%	10.25%	10.25%
Member (2% at 62)	8.15%	8.56%	9.205%	9.205%	9.205%	9.205%	9.205%

Summary

The Governor’s May Revision significantly increases funding to education in 2015-16 and continues to demonstrate his commitment to funding the LCFF. A substantial amount of one-time funding is proposed. Most notably, his proposal is just that, a proposal. The legislative process will carry out before the State Budget is adopted in June and will most likely include changes to the May Revision. Overall it appears California schools will be in a much improved position to better serve students in the fall of 2015.

Every district receives differing amounts of revenue and has its own particular set of financial risk factors. It is important that all LEAs continue to assess their individual situations and plan accordingly to maintain fiscal solvency.