Santa Clara County Office of Education
Jon R. Gundry
County Superintendent of Schools

DATE: February 25, 2015

TO: District Chief Business Officers
District Fiscal Services Directors
Charter School Administrators
Joint Powers Authorities (JPAs)

FROM: Kolvira Chheng
Director, District Business and Advisory Services

VIA: Micaela Ochoa
Chief Business Officer

SUBJECT: **2014-15 Second Interim Report Guidelines**

Background

Pursuant to Education Code section 35035 (g), 42130 and 42131, the Governing Board of each school district is to certify twice a year, that the district has the ability to meet its financial obligations for the remainder of that fiscal year and for the subsequent two fiscal years. The Second (2nd) Interim Report includes budget-to-actual expenditures of the current fiscal year through January 31st, an estimate of the budget for the remainder of the current fiscal year, and budget projections for the two subsequent fiscal years.

The following presents the general assumptions and parameters that the Santa Clara County Office of Education (SCCOE) is recommending districts use in preparation of their 2nd Interim Report for Fiscal Year (FY) 2014-15.

Local Control Funding Formula (LCFF) Elements

The Local Control Funding Formula was enacted with the passage of the 2013-14 Budget Act, replacing the previous Revenue Limit calculation. A detailed LCFF calculator can be found at the following website: http://fcmat.org/local-control-funding-formula-resources/. A summary of key elements are noted below:

	Base Grant *(incl 0.85% COLA)*	Grade Span Adjustment	Supplemental	Concentration
TK-3	$ 7,012	$ 729	$ 1,548	$ 3,871
4-6	$ 7,116		$ 1,423	$ 3,558
7-8	$ 7,328		$ 1,466	$ 3,664
9-12	$ 8,491	$ 221	$ 1,742	$ 4,356

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- COLA as determined by the Department of Finance (DOF) is expected to be 0.85% and is reflected in the grade span grants above. We strongly advise the Districts to project with caution when assessing COLA. Even though COLA is added to the Base grants, the amount that is actually funded varies. Districts with high unduplicated count percentages and low LCFF funding floors will experience higher year over year increases in funding. On the other hand, the opposite is true for districts with lower unduplicated count percentages and higher LCFF floor funding levels.

- Grade span adjustments of 10.4% for TK-3 and 2.6% for 9-12.

- The district's or charter school's unduplicated count percentage of pupils classified as socioeconomically disadvantaged, English learner, and/or foster youth, reported through California Longitudinal Pupil Achievement Data System (CALPADS), will receive the following additional funding:

  - Supplemental grant of 20% above the adjusted grade span base
  - Concentration grant of 50% above the adjusted grade span base for eligible students exceeding 55% of enrollment

- Districts will receive add-on amounts for Transportation and Targeted Instructional Improvement Grants (TIIG) at the 2012-13 level

- Districts will continue to be funded on the greater of current or prior year ADA. Charter schools will continue to be funded on current year ADA.

<u>2014-15 Multi-Year Projections (Form MYP)</u>

We advise districts to use the following assumptions in preparing form MYP:

- COLA – Per DOF
  - 2014-15 = 0.85%
  - 2015-16 = 1.58%
  - 2016-17 = 2.17%

- Gap Funding Percentage– Per DOF
  - 2014-15 = 29.15%
  - 2015-16 = 32.19%
  - 2016-17 = 23.71%

- Education Protection Account – EPA funding is a component of an LEA's total LCFF. Consistent with the current provisions of the EPA, all districts are guaranteed a minimum of $200 per ADA beginning in 2012-13 and each year thereafter through 2018-19. For state funded districts, EPA is an offset to state aid. Because basic aid districts do not receive state aid, they receive this minimum EPA funding of $200 per ADA as additional revenue.

- Unrestricted lottery revenue of $128 per Average Daily Attendance (ADA) and restricted lottery revenue of $34 per ADA

- STRS Employer Rates
    - 2014-15 = 8.88%
    - 2015-16 = 10.73%
    - 2016-17 = 12.58%

- PERS Employer Rates
    - 2014-15 = 11.771%
    - 2015-16 = 12.6%
    - 2016-17 = 15.0%

Basic Aid School Districts

The LCFF trailer bill provides a new definition of a basic aid district. The LCFF language bases the determination of a basic aid district exclusive of funds received through the EPA and further excludes revenues received through the LCFF hold-harmless calculation. Thus, revenues basic aid districts will continue to receive include:

- Hold-harmless amount of 2012-13 categorical funding, after fair share reductions at 8.92%
- Minimum Guarantee of $120 per ADA (remains unchanged); however, hold harmless could be used to fulfill this obligation
- EPA $200 per ADA ongoing funding through 2018-19 is dependent on basic aid status
- District of Choice credit at 70% of district of residence local control funding formula grant
- Charter School Basic Aid Supplement stays at 70% of district of residence local control funding grant
- Court-ordered desegregation at 70% of district of residence local control funding formula grant (current language does not include court-ordered, although discussions with the DOF have indicated their intent to preserve current court-ordered funding under LCFF)

It is important for basic aid districts to carry higher than minimum reserves. Dependence on property taxes means dependence on assessed property values. Maintaining reserves greater than minimum provides a buffer should assessed values fall short of projections. Moreover, basic aid districts do not receive additional funding if their enrollment grows.

Summary

While the DOF is projecting optimistic funding growth over the next three years, we advise districts to take a more conservative approach. We advise against committing to ongoing expenditure increases based on projected increases in revenue. Maintaining adequate reserves and fiscal flexibility are necessary to protect fiscal stability in an unpredictable operating environment. For districts using the full funding growth, we strongly recommend districts to develop contingency plans should revenues not materialize.

With the passage of Proposition 2 on November 4, 2014, there is much anxiety regarding the school district reserve cap. In the year following a State contribution to the "Public School System Stabilization Account" (PSSSA), school districts will be forced to spend down reserves so that their combined assigned and unassigned ending fund balances are no more than twice their required reserve level, 6% for most. COEs will have the authority to exempt districts of this requirement for no more than 2 consecutive years in a three-year period under "extraordinary circumstances." The following conditions must be met before the State transfers revenue into the PSSSA:

- Proposition 98 maintenance factor must be fully repaid
- Proposition 98 must be funded based on Test 1
- Proposition 98 is sufficient for enrollment growth and statutory COLA
- A deposit must be made into the PSSSA when capital gains revenues exceed 8% of General Fund revenues

While earlier analysis indicated that meeting the above conditions in the near future is unlikely, recent developments suggest that the cap on school district reserves could be triggered sooner than we think. Despite of this, we recommend districts to continue to maintain their current level of reserves. Strong efforts by various educational advocacy groups are being made to repeal this law.

Timeline

We remind districts that 2nd Interim Reports are due to the County Office no later than **March 15th, 2015** and request that districts **please submit a copy of your LCFF calculation and assumptions.** While we understand that some districts may close for spring break or other reasons, timely responses to our questions are appreciated in order to issue response letters and report to the CDE. If you will not be available between the date of submission and April 15, 2015 please provide us with your back-up contact's information. Reports may be submitted earlier than this due date and we appreciate early submissions.

If you have any questions, please feel free to contact your District Business Advisor:

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