

Santa Clara County Office of Education
Chief Business Officials Meeting
November 3, 2016



**State Budget Outlook,
the Election, and
Other Hot Topics**

Presented by:
Patti F. Herrera
Director, Governmental Relations



Overview

- State Budget Update
 - The U.S. and California Economies
 - State Revenue Collections
- The November Election
 - Proposition 51 – School Bond
 - Proposition 55 – Tax Extension
- Other Hot Topics
 - California State Teachers’ Retirement System (CalSTRS) and California Public Employees’ Retirement System (CalPERS) Costs
 - The Reserve Cap
 - The Local Control and Accountability Plan (LCAP) and Local Accountability

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The Economic Landscape

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2016-17 Budget Act

- The 2016-17 Enacted State Budget assumes modest revenue growth of 2.8% to \$120.3 billion and expenditure growth of 6% to \$122.5 billion
- Reserves total \$8.5 billion, including \$6.7 billion in the Budget Stabilization Account (BSA)
 - Governor Jerry Brown insisted on appropriating \$2 billion more than the required minimum contribution
 - The required minimum contribution to the BSA was \$1.3 billion
 - The BSA now stands at 54% of the maximum goal of 10% of General Fund revenues

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Recent National Economic Developments

- Gross Domestic Product (GDP), the broadest measure of the U.S. economy, has been growing weakly in the first two quarters of this calendar year
 - 0.8% growth in Quarter 1 and 1.1% growth in Quarter 2
- GDP growth has been slow
 - 2014 was 2.5%
 - 2015 was 2%
 - For 2016, UCLA had forecast a 3% increase
- UCLA's latest forecast for 2016 is for 1.5% growth
 - To blame: low productivity
 - Neither presidential candidate's policies will have an immediate impact

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California Labor Market

- California added 63,100 jobs in August, 18,600 jobs in July, and 40,300 jobs in June
 - This level is well above the amount needed to absorb population-related growth of about 10,000 to 15,000 jobs monthly
- The state's unemployment rate held steady in August at 5.5%, which compares to 4.9% for the U.S.
 - At the peak of the recession, California's unemployment rate was more than 2% higher than the U.S. rate
 - December 2009: California's rate was 12.4% versus 10% for the U.S.

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Rocky Start for General Fund Revenues

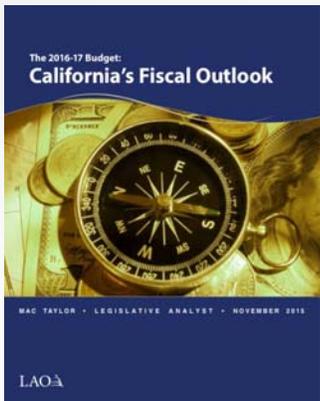
- ✿ While the employment picture looks good, state revenues since the May Revision forecast have fallen short by just over \$920 million
 - Revenues for the 2015-16 fiscal year ended short of the forecast level by \$706 million
 - Year-to-date revenues for the budget year are short \$222 million
- ✿ While the numbers, along with national GDP trends do not inspire confidence, it's too early to predict the effects on the State Budget

How the current shortfall compares to the prior years (August)	
2015-16	+ \$900 million
2014-15	+ \$430 million
2013-14	+ \$1.8 billion

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What to Watch



- ✿ Department of Finance monthly *Finance Bulletin* for General Fund revenues
- ✿ Wall Street performance as California's progressive tax structure contributes to revenue volatility
- ✿ Legislative Analyst's Office annual *California's Fiscal Outlook* (mid-November)
 - A five-year outlook
 - State economic forecast that includes a section on Proposition 98

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The November Election

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The November Election

- In addition to deciding who will run the United States, California voters will decide the fate of 17 initiatives from carryout bags to the death penalty
 - The Official Voter Information Guide runs 224 pages
- Two measures will directly affect public K-12 education finance
 - Proposition 51 – School Facilities Bond
 - Proposition 55 – Extension of High-Bracket Income Taxes
- Voters will also decide to reinstate bilingual education through Proposition 58

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Proposition 51 – Statewide School Bond

K-12 and Community College Breakdown	
K-12	New Construction: \$3 billion Modernization: \$3 billion Charter Schools: \$500 million Career and Technical Education: \$500 million
Community Colleges	\$2 billion
TOTAL	\$9 billion

-  Annual debt service of \$500 million for 35 years
-  More than \$25 billion in local education bonds will be on the ballot
-  Latest Public Policy Institute of California (PPIC) poll shows Prop. 51 struggling with 46% support

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School Facilities Funding

-  This spring, the State Allocation Board (SAB) determined that state funds for new construction are no longer available, paving the way for the implementation of Level III developer fees
 -  But before the SAB could take the next step, the California Building Industry Association (CBIA) filed for a preliminary injunction and temporary restraining order to stop implementation
 -  On August 22, 2016, the Honorable Michael Kenny issued a final ruling denying the CBIA's request
 -  CBIA has filed an appeal

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Proposition 55 – Tax Extension



**YES ON
55**

**HELP OUR
CHILDREN
THRIVE!**

- California voters will decide on whether or not to extend the high-bracket tax rates imposed with the passage of Proposition 30
- The 2016-17 State Budget assumes the expiration of the taxes

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Proposition 55 – Tax Extension

• Proposition 55 extends the income tax rates for the state's highest income earners for 12 years until 2030

- The ¼ cent sales tax will expire as originally planned
- These funds boost the Proposition 98 guarantee and provide up to \$2 billion in additional funds for Medi-Cal

Latest Polling	
Percent of voters supporting	
PPIC	59%
Field Poll	60%
USC	57%

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How Much Will My District Receive?

- Why no one can answer this question for any one district:
 - Proposition 98 guarantee is based on multiple factors, including the state of the overall economy
 - Each district's revenue is based on its Local Control Funding Formula (LCFF) target and student demographics
 - The Legislature can decide to spend Proposition 98 on other education priorities (e.g., categorical)
- That said, *on average* revenues from the passage of Proposition 55 could produce about \$600 per average daily attendance (ADA)
 - If Proposition 98 is calculated based on either Test 1 or Test 2, Proposition 55 revenues will boost education funding
 - \$8 billion in Proposition 55 revenues will provide about \$4 billion to K-14 education, with \$3.6 billion going to K-12

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Notes

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Other Hot Topics

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CalSTRS Employer Rate Increases

- ❖ Employer rates have increased to 12.58% in 2016-17, up from 10.73% in 2015-16
 - No specific funds are provided for this cost increase
- ❖ Under current law, once the statutory rates are achieved, CalSTRS will have the authority to marginally increase or decrease the employer and state contribution rate

Year	Employer	Pre-PEPRA* Employees	Post-PEPRA Employees
2015-16	10.73%	9.20%	8.56%
2016-17	12.58%	10.25%	9.205%
2017-18	14.43%	10.25%	9.205%
2018-19	16.28%	10.25%	9.205%
2019-20	18.13%	10.25%	9.205%
2020-21	19.10%	10.25%	9.205%

*Public Employees' Pension Reform Act

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The Prospect of Future Rate Increases

After the statutory rates are met, the CalSTRS Board has authority to adjust employer contribution rates based on what is needed to fully exhaust the unfunded liability by 2046

Entity	Implementation Period	Annual Change Limit	Other Details
State	Three-year implementation for the state, through 2016-17	Cannot change by more than 0.5% in any given year thereafter	
Employers	Seven-year implementation, through 2020-21	Cannot increase more than 1% in any year nor supplant the state's obligation thereafter	Could increase to 20.25% or decrease to 8.25%

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How Is CalSTRS Doing These Days?

- This summer, CalSTRS reported that its investment returns for the 2015-16 year were 1.4%, significantly below its long-term assumption for investment earnings of 7.5%
 - In the longer term, CalSTRS' investment earnings have been as follows:
 - 7.7% over the last 5 years
 - 7.1% over the last 20 years
- The CalSTRS funded ratio (value of assets divided by value of liability) in 2015 is 68.5%, unchanged from 2014
 - Up from 66.9% when the state undertook the full-funding plan
 - The funding gap of \$76.2 billion actually increased by \$3.5 billion since the 2014 previous valuation

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CalPERS – Taking Care of Itself

- CalPERS has authority to increase rates
- In February 2014, CalPERS adopted new demographic assumptions based on member longevity
 - As a result, employer and state contribution rates will increase
 - At the Governor’s urging, state rate increases immediately phased in over three years
 - Employer rate increases beginning in 2016-17, phased in over five years
- With new assumptions, CalPERS aims to fully fund the system – eliminating the unfunded liability – in about 30 years
- As of June 2015, the schools’ portion of CalPERS is 77.5% funded

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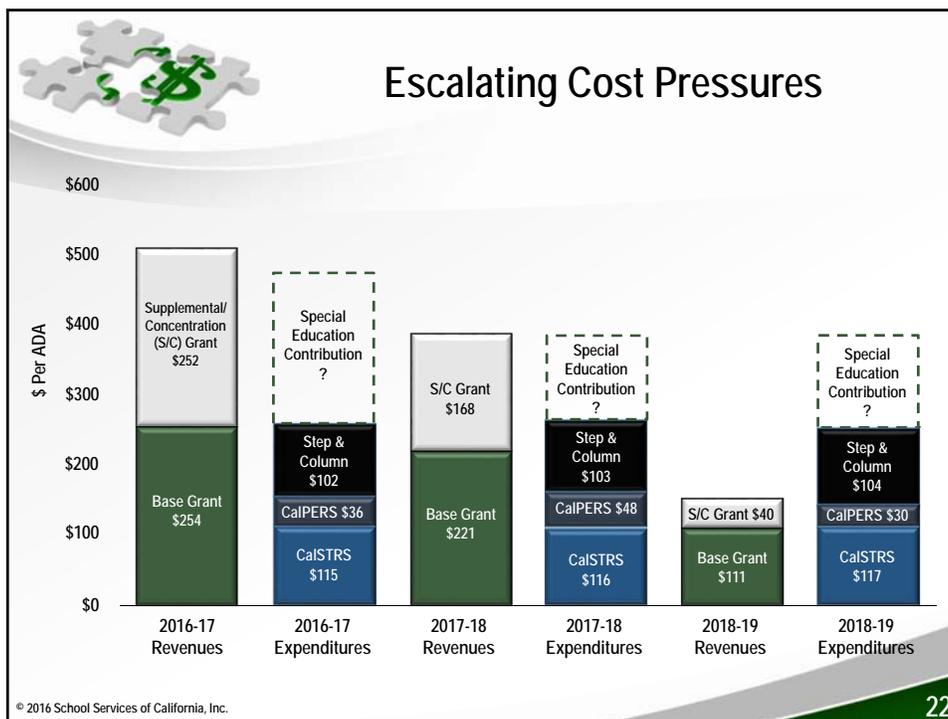
CalPERS Rate Increases

- The employer contribution rate for 2016-17 is higher than previously anticipated, at 13.888%
 - Fortunately, out year estimated contribution rates have been lowered since they were last released in 2014
 - Unfortunately, this summer CalPERS announced their 2015-16 return on investment was 0.61%
 - School employers will feel the impact of this low investment return as the employer contribution rates for 2017-18 and beyond are calculated

Actual		Estimated			
2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
11.847%	13.888%	15.5%	17.1%*	18.6%*	19.8%*

*CalPERS-provided estimates, April 2016

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Reserve Requirements and Collective Bargaining

- ✿ The cap on district reserves has placed great pressure on districts to expend some of these funds on salary increases, even though the cap is not yet operative
- ✿ The key to protecting your reserve: educate your bargaining units
 - One-time reserves cannot support ongoing salary increases
 - Reserves protect against:
 - Unforeseen cuts in LCFF funding from the state and unbudgeted expenses
 - Cash between funding cycles to maintain payroll and utility costs
 - Districts with positive relations with their bargaining units will “get it”

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Other Uses of One-Time Funds

- Other uses of one-time funds
 - Establish Fund 14 for deferred maintenance, which will not count toward your reserve balance
 - Use one-time funds to buy down **other postemployment benefits liabilities**
 - If the district is experiencing **declining enrollment**, consider a one-time **early retirement incentive**



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School District Reserve Cap Reform – Failed

- Last summer, the California School Boards Association unveiled its sponsored legislation to amend the school district reserve cap:
 - Set a hard cap of 17% of unassigned General Fund balances and Special Reserve Fund for Other Than Capital Outlay Projects (Fund 17)
 - Exempt small districts (fewer than 2,501 ADA) and basic aid districts
 - After a set of unfavorable amendments circulated, the unified management coalition supporting Senate Bill (SB) 799 splintered and the bill did not move forward
- Late this spring SB 799 resurfaced and was set to be heard at the final Assembly Education Committee hearing of the year
 - But at the last minute, the author cancelled the hearing of the bill; therefore, the measure failed

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Local Control Accountability Plans

- ◆ The State Board of Education approved a new LCAP template
 - While the majority of the elements are the same, the format is significantly different
 - The LCAP template links to evaluation rubrics, which were approved in September 2016
 - Rubrics evaluate performance over multiple measures
 - How certain student groups are doing over time
 - The LCAP template and the evaluation rubrics will be in place for 2017-18

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Local Control Accountability Plans

Significant changes relating to LEA budgets

Plan Summary

BUDGET SUMMARY
 Complete the table below. LEAs may include additional information or more detail, including graphics.

DESCRIPTION	AMOUNT
Total General Fund Budget Expenditures for LCAP Year	\$ <input style="width: 150px;" type="text"/>
Total Funds Budgeted for Planned Actions/Services to Meet the Goals in the LCAP for LCAP Year	\$ <input style="width: 150px;" type="text"/>

The LCAP is intended to be a comprehensive planning tool but may not describe all General Fund Budget Expenditures. Briefly describe any of the General Fund Budget Expenditures specified above for the LCAP year not included in the LCAP.

\$ <input style="width: 90%;" type="text"/>	Total Projected LCFF Revenues for LCAP Year
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Local Control Accountability Plans

Significant changes relating to LEA budgets
Annual Update

ANALYSIS
Complete a copy of the following table for each of the LEA's goals from the prior year LCAP. Duplicate the table as needed.
Use actual annual measurable outcome data, including performance data from the LCFF Evaluation Rubrics, as applicable.

Describe the overall implementation of the actions/services to achieve the articulated goal.

Describe the overall effectiveness of the actions/services to achieve the articulated goal as measured by the LEA.

Explain material differences between Budgeted Expenditures and Estimated Actual Expenditures.

Describe any changes made to this goal, expected outcomes, metrics, or actions and services to achieve this goal as a result of this analysis and analysis of the LCFF Evaluation Rubrics, as applicable. Identify where those changes can be found in the LCAP.

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Local Control Accountability Plans

Significant changes relating to LEA budgets
Goals, Actions, and Services

PLANNED ACTIONS / SERVICES
Complete a copy of the following table for each of the LEA's Actions/Services. Duplicate the table, including Budgeted Expenditures, as needed.

Action **1**

For Actions/Services not included as contributing to meeting the Increased or Improved Services Requirement:

Students to be Served: All Students with Disabilities [Specific Student Group(s)] _____

Location(s): All schools Specific Schools: _____ Specific Grade spans: _____

OR

For Actions/Services included as contributing to meeting the Increased or Improved Services Requirement:

Students to be Served: English Learners Foster Youth Low Income

Scope of Services: LEA-wide Schoolwide **OR** Limited to Unduplicated Student Group(s)

Location(s): All schools Specific Schools: _____ Specific Grade spans: _____

ACTIONS/SERVICES

2017-18	2018-19	2019-20
<input type="checkbox"/> New <input type="checkbox"/> Modified <input type="checkbox"/> Unchanged	<input type="checkbox"/> New <input type="checkbox"/> Modified <input type="checkbox"/> Unchanged	<input type="checkbox"/> New <input type="checkbox"/> Modified <input type="checkbox"/> Unchanged

BUDGETED EXPENDITURES

2017-18	2018-19	2019-20
Amount: _____	Amount: _____	Amount: _____
Source: _____	Source: _____	Source: _____
Budget Reference: _____	Budget Reference: _____	Budget Reference: _____

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Local Control Accountability Plans

Significant changes relating to LEA budgets
Proportionality

Demonstration of Increased or Improved Services for Unduplicated Pupils

LCAP Year 2017-18 2018-19 2019-20

Estimated Supplemental and Concentration Grant Funds: \$ Percentage to Increase or Improve Services: %

Describe how services provided for unduplicated pupils are increased or improved by at least the percentage identified above, either qualitatively or quantitatively, as compared to services provided for all students in the LCAP year.

Identify each action/service being funded and provided on a schoolwide or LEA-wide basis. Include the required descriptions supporting each schoolwide or LEA-wide use of funds ([see instructions](#)).

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Santa Clara County  Office of Education

BUSINESS SERVICES BRANCH, MC 251

November 3, 2016

TO: District CBOs and Fiscal Directors

FROM: Ann Jones, Interim Chief Business Officer

SUBJECT: Common Message

Attached is the guidance provided by the Business and Administration Steering Committee (BASC) in preparing your assumptions in developing your First Interim reports. First Interims are due upon district Board approval, but no later than December 15, 2016 to the Santa Clara County Office of Education. Thank you early filers and all for ensuring that your package is complete and include the following:

- Form CI – Certification with original signatures
- Form A1 – Average Daily Attendance
- Form 01I – General Fund – Statement of Revenues, Expenditures & Changes in Fund Balance including assumptions
- Financial statement for any fund projecting a negative fund balance
- Form CASH – Cashflow Worksheet
- Form MYPI – Multiyear Projections including assumptions
- Form MYPIO – Multiyear Projections for any fund other than the General Fund projecting a negative fund balance
- Form 01CSI – Criteria & Standards Review
- Technical Checklists for original budget & projected year totals data types with all fatal exceptions cleared and valid warning exceptions explained

Additionally, with your submission of the first interim, this is also a good time to update us on any completed collective Bargaining Agreements, new voter and non-voter approved debt, studies/audits/evaluations/ and other reports that may be initiated by the district or, Superintendent of Public Instruction, or other state or federal agencies that identifies issues of fiscal distress as we need to consider such information in our analysis of the district's financial status.

If you need additional assistance, please work directly with the advisor assigned to your district, as listed on the District Business and Advisory Services (DBAS) website at:

<http://www.sccoe.org/depts/bizserv/DBAS/Pages/default.aspx>

The Common Message

First Interim 2016-17
October 2016



BASC
Business and Administration
Steering Committee

Common Message Writers and Contributors

Common Message Chair: John Von Flue, Kern

Writers and Contributors			
Topic	Lead	Contributor	Contributor
Background	Committee		
Introduction	Committee Chair	Current BASC Chair	
Key Guidance	Janet Riley, Merced	Tad Alexander, Butte	
Planning Factors/MYP Chart/COLA/Funded Gap	Janet Riley, Merced	Tad Alexander, Butte	
Proposition 98 / Property taxes	Damon Smith, Imperial		
Reserves/Reserve Level	Rich DeNava, San Bernardino	Tami Ethier, Yolo	Gretchen Deichler, Trinity
Negotiations	Rich DeNava, San Bernardino	Josh Schultz, Napa	Tami Ethier, Yolo
Routine Restricted Maintenance Account	Mary Hart, Santa Cruz	Lynette Kerr, Humboldt	
Home to School Transportation	Mary Hart, Santa Cruz	Gretchen Deichler, Trinity	Shannon Hansen, San Benito
Local Control Funding Formula	Scott Price, Los Angeles		
Education Protection Act	Tami Ethier, Yolo	Wendy Benkert, Orange	Damon Smith, Imperial
Adult Education	Teresa Hyden, Riverside	Josh Schultz, Napa	Mary Hart, Santa Cruz
Mandated Claims / Costs	Denise Porterfield, San Mateo	Shannon Hansen, San Benito	
Federal Funding	Wendy Benkert, Orange	Caty Ecklund, Mono	Tami Ethier, Yolo
Foster Youth Services	Lora Duzyk, San Diego	Garry Bousum, Monterey	Tammy Sanchez, Sacramento
Necessary Small Schools	Lynette Kerr, Humboldt	Debbie Pendley, Siskiyou	Gretchen Deichler, Trinity
Medi-Cal Admin Activities/MAA	Randy Jones, Glenn		
Cash Management	Wendy Benkert, Orange	Tami Ethier, Yolo	
Proposition 39	Mary Hart, Santa Cruz	Debbie Pendley, Siskiyou	

Writers and Contributors			
Forest Reserve	Debbie Pendley, Siskiyou	Gretchen Deichler, Trinity	
Preschool/Child Care/TK /Early Education	Robbie Montalbano, El Dorado	Wendy Benkert, Orange	
Special Education	Tammy Sanchez, Sacramento		
Audit Requirements	Tammy Sanchez, Sacramento	Steve Corl, Kings	Rose Asquith, Sierra
SACS Changes	Lynette Kerr, Humboldt	Gail Atwood, Sutter	
Local Control Accountability Plan	Gail Atwood, Sutter	Josh Schultz, Napa	Denise Porterfield, San Mateo
CALPADS	Bill Ridgeway, Santa Barbara	Sheldon Smith, San Luis Obispo	
Basic Aid	Denise Porterfield, San Mateo	Josh Schultz, Napa	
Educator Effectiveness	Janet Riley, Merced	Lora Duzyk, San Diego	
Charter Schools	Lora Duzyk, San Diego	Richard Martin, Fresno	Gary Jones, Alameda
Career Technical Education	John Von Flue, Kern	Lora Duzyk, San Diego	
Retirement	Caty Ecklund, Mono	Sheldon Smith, San Luis Obispo	
Summary	Committee Chair	Current BASC Chair	

Sources

Association of California School Administrators
Bob Blattner and Associates
Bob Canavan, Federal Management Strategies
California Association of School Business Officials
California Collaborative for Educational Excellence
California Department of Education
California Department of Finance
California State Board of Education
California School Boards Association
California School Information Services
Capitol Advisors
Fiscal Crisis and Management Assistance Team
Jeff Frost; Frost, Davis, and Donnelly
K-12 High Speed Network
Michael Hulsizer, BASC Liaison & Kern County Superintendent of Schools
National Forest Counties and Schools Coalition
School Services of California
Schools for Sound Finance (SF2)
Small School Districts' Association
Statewide LEC Co-chairs
WestEd

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Introduction

This edition of the Common Message is intended to provide information and guidance to assist LEAs in developing 2016-17 First Interim reports and their multiyear projections (MYPs). It contains information related to the final Adopted Budget for 2016-17, which was signed by Governor Brown on June 27. This version of the Common Message addresses items considered important for LEAs to include in their interim reports and MYPs.

Significant Changes

The adopted 2016-17 budget contained funding highlighted as follows:

- LCFF funding increase at \$2.942 billion.
- LCFF gap funding percentage at 54.18%.
- Mandate reimbursement allocates \$1.28 billion (\$214 per ADA) in unrestricted funds to offset the mandate backlog.
- College Readiness Block Grant: Allocates \$200 million in one-time Prop. 98 funds to support access and successful transition to higher education for high school students.
- Truancy and dropout prevention: Increase of \$18 million in funding consistent with Prop. 47, the Safe Neighborhoods and Schools Act.
- Classified School Employees Credentialing Program: \$20 million in one-time Prop. 98 funds to recruit noncertificated school employees to become certificated classroom teachers.
- California Center on Teaching Careers: Additional \$2.5 million (\$5 million total) to establish the California Center on Teaching Careers to recruit individuals to become certificated classroom teachers.
- Quality drinking water: Grants totaling \$9.5 million in one-time Prop. 98 funds to increase access to safe drinking water in schools.
- Breakfast Startup Grant: Additional \$2 million in one-time Prop. 98 funds to support additional needs through 2018-19.
- Child Care: Beginning January 2017, standard reimbursement rate to increase by 10% for direct-contracted providers, and the regional market reimbursement rate ceiling for voucher-based child care providers to

adjust to recent estimates, and to increase license-exempt providers from 65% to 70% of the licensed family child care home rate.

- State Preschool: Increase access for an additional 2,959 children effective March 1, 2017.

Planning Factors for 2016-17 and MYPs

Key planning factors for LEAs to incorporate into the 2016-17 budget and multiyear projections are listed below and based on the latest information available.

Planning Factor	Fiscal Year		
	2016-17	2017-18	2018-19
COLA (Department of Finance - DOF)	0.00%	1.11%	2.42%
LCFF Gap Funding Percentage (DOF)	54.18%	72.99%	40.36%
LCFF Gap Funding (in millions)	2,942	2,210	835
STRS Employer Statutory Rates	12.58%	14.43%	16.28%
PERS Employer Projected Rates	13.888%	15.50%	17.10%
Lottery – unrestricted per ADA	\$144	\$144	\$144
Lottery – Prop. 20 per ADA	\$45	\$45	\$45
Mandated Cost per ADA or One-Time Allocations	\$214	\$0	\$0
Mandate Block Grant for Districts – K-8 per ADA	\$28.42	\$28.42	\$28.42
Mandate Block Grant for Districts – 9-12 per ADA	\$56	\$56	\$56
Mandate Block Grant for Charters – K-8 per ADA	\$14.21	\$14.21	\$14.21
Mandate Block Grant for Charters – 9-12 per ADA	\$42	\$42	\$42
State Preschool Part-Day Daily Reimbursement Rate	\$23.87 / 26.26*	\$26.26	\$26.26
State Preschool Full-Day Daily Reimbursement Rate	\$38.53 / 42.38*	\$42.38	\$42.38

General Child Care Daily Reimbursement Rate	\$38.29 / 42.12*	\$42.12	\$42.12
*Increase of 10% effective January 1, 2017			
Routine Restricted Maintenance Account (Note: if the school facility bond proposition on the November 2016 ballot passes, the RRMA requirement may revert to 3% for all LEAs)	Lesser of: 3% or 14/15 amount	Greater of: Lesser of 3% or 14/15 amount or 2%	At Least: 3%

Local Control Funding Formula

Full implementation of the LCFF is anticipated to be complete by 2020-21. While the economy has improved quickly over the last years, both the Governor and the Department of Finance continue to remind educational entities that an economic downturn is inevitable and would negatively affect school funding.

The figures below have been updated to reflect these changes as outlined in the most recent FCMAT LCFF Calculator.

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/>.

Grade Level	2016-17 Target Base Grant	2016-17 Target GSA	2017-18 Target Base Grant	2017-18 Target GSA	2018-19 Target Base Grant	2018-19 Target GSA
Grades TK-3	\$7,083	\$737	\$7,162	\$745	\$7,335	\$763
Grades 4-6	\$7,189		\$7,269		\$7,445	
Grades 7-8	\$7,403		\$7,485		\$7,666	
Grades 9-12	\$8,578	\$223	\$8,673	\$225	\$8,883	\$231

FCMAT has updated annual COLA and gap funding figures based on the final state budget. These figures are found below and at: <http://fcmat.org/local-control-funding-formula-resources/>.

While the annual gap-closure percentage estimates may seem large, the remaining gap to fill has shrunk significantly. This means that gap-closure percentages will increase, yet result in a smaller actual funding increase for school districts.

	Estimate* 2016-17	Estimate 2017-18	Estimate 2018-19	Estimate 2019-20
LCFF Gap Funding Percentage	54.18%	72.99%	40.36%	73.98%
Annual COLA	0.00%	1.11%	2.42%	2.67%

*As of the 2016-17 Budget Act.

K-12 One-Time Funding

Mandate Reimbursement

\$1.28 billion is allocated to offset the outstanding mandate backlog, \$194.2 million of which satisfies the 2009-10 Prop. 98 minimum guarantee. The CDE has calculated a per-student allocation rate of \$214 per ADA. The intent is for these one-time funds to be used for deferred maintenance, professional development, induction for beginning teachers, instructional materials, technology and other support for the state content standard implementation; however, these funds are not restricted.

College Readiness Block Grant

The College Readiness Block Grant is established to provide California’s high school pupils, particularly unduplicated pupils as defined in Education Code (EC) sections 42238.01 and 42238.02, additional supports to increase the number who enroll at institutions of higher education and complete an undergraduate degree within four years. No school district, county office or charter school will receive less than \$75,000 if they served at least one unduplicated student in 2015-16. Preliminary funding is posted on the CDE website at: <http://www.cde.ca.gov/fg/fo/r14/collegereadiness16result.asp>

As a condition of receiving the grant, local educational agencies (LEAs) are required to report to the State Superintendent of Public Instruction, by January 1, 2017, on how LEAs will measure the impact of the funds received on their unduplicated pupils’ access and successful matriculation to institutions of higher education, as identified within their plan (as required by *Education Code* (EC) Section 41580.

The survey is posted at: <http://surveys2.cde.ca.gov/s.asp?k=147147028192>

Truancy and Dropout Prevention

\$18 million additional in one-time Prop. 98 funds was authorized in the 2016-17 budget and is aimed at reducing truancy and supporting pupils who are at risk of dropping out of school. Grant funding will be provided to identify and implement evidence-based, non-punitive programs and practices to keep the most vulnerable pupils in school.

Pursuant to AB 1014 and SB 527, statutes of 2016, the application process is forthcoming. Applications will be required to include information about the pupil and school needs, proposed activities the LEA will undertake with grant funds, how the proposed activities will support the goals contained in the LEA's LCAP, and how the LEA will measure outcomes. Priority will be given to LEAs with high rates of chronic absenteeism, communities with high crime rate, and significant foster youth.

Grants are for three years of funding and will require a minimum match of 20% cash or in-kind.

Teacher Workforce Development: Classified School Employees Credentialing Program

One-time Prop. 98 funding of \$20 million is available to establish the California Classified School Employees Credentialing Program and provide grants to K-12 local educational agencies to recruit noncertificated school employees to participate in a teacher preparation program and become certificated classroom teachers in California public schools.

Grants will be allocated at up to \$4,000 per participant per year for up to 1,000 participants.

Participating employees must have an associate's degree or higher or have completed two years of postsecondary education. They must commit to completing a bachelor's degree and teaching credential, and complete one year of classroom instruction in the LEA providing the assistance.

California Center on Teaching Careers

Allocates a total of \$5 million in one-time Prop. 98 funds as a multiyear award to establish a California Center on Teaching Careers to recruit qualified individuals into the teaching profession. Recruitment priorities will be in the areas of math, science, and bilingual education, and for low-income schools.

Water

\$9.5 million is provided in one-time Prop 98 funding for the State Water Resources Control Board to award grants to LEAs to improve access to quality drinking water in schools. Recommended uses include water bottle filling stations and improved filtering and treatment for water fountains. Priority is given to schools in small disadvantaged communities and projects that are most effective in increasing access to safe drinking water in schools. For more information, please see the following webpage:

http://www.waterboards.ca.gov/drinking_water/services/funding/SRF.shtml

Breakfast Startup Grant

\$2 million is approved in one-time Prop. 98 funding to enhance the existing \$1 million School Breakfast Startup Grant program through 2018-19. Funds are to address additional need in the program and will be prioritized to school districts and county offices with over 60% unduplicated pupil count to start or expand breakfast served after the start of the school day.

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 the minimum levels are insufficient 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 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, and 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 potential reserve cap triggered by Education Code 42127.01 (enacted with SB 858, statutes of 2015) should certain conditions exist is still in place, and it is not expected to be in effect for fiscal years 2016-17 or 2017-18.

As an emerging practice, many districts have designated components of their fund balance to compensate for the programmed escalation of STRS/PERS costs in their multiyear projections and beyond.

Negotiations

School districts considering multiyear collective bargaining contracts should maintain flexibility through contingency language or other means that protect them from cost increases and/or revenue losses beyond their control (e.g., pension reform, health care, economic downturns). The large increase in gap funding in the past two years will lead to

smaller year-over-year gap funding in the future. Clearly communicating the intricacies of gap funding will be critical to avoiding misunderstandings at the bargaining table. For instance, an uninformed observer might assume that because the 2016-17 gap factor (54.18%) is very similar to the 2015-16 factor (52.56%), the amount of new funding districts are receiving is comparable, when in fact the 2016-17 LCFF gap funding is less than half of the prior year's increase. This is evident in a side-by-side comparison in the following table showing gap funding in both percentage and dollars:

	2015-16	2016-17	2017-18	2018-19
LCFF Gap Funding Percentage (DOF)	52.56%	54.18%	72.99%	40.36%
LCFF Gap Funding (in millions)	6,200	2,942	2,210	835

For some districts, 2016-17 gap funding is less than the amount needed to cover STRS and PERS contribution rate increases, and that likely will be true for most if not all districts beginning in 2017-18. STRS and PERS contribution costs are scheduled to continue to rise through the current projection period.

One-time revenues, such as mandate funds received in 2016-17, can obscure the collective bargaining environment. Many districts and their bargaining units may be tempted to address ongoing expenditure needs and priorities with one-time funds simply because more dollars appear and, therefore, are available for bargaining. Given current state revenue projections and the mechanisms of Prop. 98, it is likely that the large allocations of one-time Prop. 98 dollars seen in 2015-16 and 2016-17 will *not* repeat in 2017-18. As a result of the potential reserve cap provisions (SB 858, statutes of 2015), school districts may encounter requests to spend down reserves in bargaining table discussions. The existence of a potential reserve cap does not change the fact that spending one-time dollars (e.g., reserves) on ongoing expenses (e.g., salaries) is a certain recipe for fiscal trouble.

Along with higher gap funding also comes the requirement to meet class size reduction in grades K-3. This may necessitate hiring additional staff, resulting in increased employment costs to meet the class size reduction targets and receive the grade span adjustment funds.

Numerous risk factors on the horizon affect the affordability of collective bargaining agreements. Examples include uncertainty over state revenues (with or without Prop. 55, which even if approved does not take effect until 2019-20), the implementation of Affordable Care Act penalty regimes, costs associated with AB 1522 (expanded sick leave), AB 2393 requirements for classified differential pay and ongoing increases in the state minimum wage. Districts are encouraged to exercise extreme caution when bargaining ongoing commitments for salaries or health care benefits, and, as always, it is critical to factor in the full cost of employment including all statutory costs.

Regardless of the economic environment, districts can always anticipate continued and ongoing requests for staff compensation and benefit increases. Nonetheless, district

solvency is paramount in negotiations and can only be maintained through careful and thorough study of district revenue and expenditure projections and the making of tough decisions necessary to maximize services to students with available financial resources.

Cash Management

LEAs should monitor cash flow to ensure sufficient cash is available to meet obligations.

The State Controller’s Office has posted estimated payment dates for K-12 principal apportionments, lottery apportionments, and Education Protection Account Prop. 30 apportionments through December 2016. The table below illustrates state apportionments for November and December 2016.

Months	Principal Apportionment	Proposition 30 EPA	Lottery
November 2016	11/28/2016		
December 2016	12/28/2016	12/23/2016	12/29/2016

CDE provides a monthly update of estimated cash flow for state and federal categorical programs that can be downloaded from the following webpage:

<http://www.cde.ca.gov/fg/aa/ca/estcashflow.asp>. The schedule provides cash flow estimates for the following programs: Mandate Block Grant, Adult Education Block Grant, College Readiness Block Grant, and Mental Health.

Please note that federal apportionments are contingent upon timely reporting under CDE’s Federal Cash Management Data Collection System:

<http://www2.cde.ca.gov/cashmanagement/default.aspx>. The 2016-17 reporting windows are as follows:

- Reporting Period 1: July 10 – July 31
- Reporting Period 2: October 10 – October 31
- Reporting Period 3: January 10 – January 31
- Reporting Period 4: April 10 – April 30

Temporary taxes from Prop. 30, Education Protection Act (EPA), are to continue through the 2018-19 fiscal year. The Department of Finance estimates the total K-14 EPA funds available for 2016-17 are \$7.6 billion, of which the K-12 share is 89%. Details can be found posted on the CDE website: www.cde.ca.gov/fg/aa/pa/epa.asp

Grade Span Adjustment (GSA)

The LCFF provides a 10.4% increase in funding for grades K-3 (including TK) base grant. To receive these funds districts must maintain enrollment at all school sites at an average of no more than 24 students per class at full implementation of LCFF.

School districts have the authority to collectively bargain an alternative, locally defined class size ratio.

School districts that do not have an alternative agreement must annually make progress to a school site average enrollment of 24 students per class. Progress is measured by the percentage used for gap funding. A school district can accelerate the progress but at minimum must meet the annually calculated progress.

For details see the LCFF calculation for your district.

The penalty for noncompliance is severe as it includes the loss of all K-3 GSA funding districtwide.

Home to School Transportation

The maintenance of effort for all districts receiving transportation funds remains in effect as it does not expire.

Special Education

The zero COLA means no increased funding for Special Education base or preschool programs for 2016-17. The Governor has called for another study regarding Special Education financing. The Public Policy Institute of California will release its findings this fall.

SB 884 added audit requirements for mental health services. See the Audit Requirements section for additional details.

CALPADS

Because CALPADS data is used in a variety of revenue calculations for LEAs, it is imperative that financial and student data personnel review any submission both for accuracy and completeness.

Key Upcoming Deadlines

- The Fall 1 submission period opened October 5 with a certification deadline of December 2, 2016 and an amendment window from December 3, 2016 to January 27, 2017.
- The Fall 2 submission period opens December 28 with a certification deadline of March 3, 2017 and an amendment window that closes on March 31, 2017.

A certification and amendment calendar is posted on the CDE website at <http://www.cde.ca.gov/ds/dc/es/subcal.asp>

Review CALPADS Access

Now is a good time to review staff access to CALPADS or to the district's student data management system that supplies data to CALPADS. LEA administrators should review access to ensure that all users are authorized and have the appropriate access levels to the student data management system and to CALPADS. Remove access credentials for staff who are no longer with the LEA.

Chronic Absenteeism and ADA

The Every Student Succeeds Act requires states to report chronic absenteeism rates for schools. These data also are becoming increasingly important as an indicator for state accountability purposes. Please note that data collected via CALPADS will not replace the average daily attendance (ADA) data submitted to the CDE for purposes of funding the Local Control Funding Formula (LCFF) or other ADA-funded programs.

ODS Reports

CDE is modifying the reporting structure in CALPADS to focus on snapshot reports as a single reporting structure. Resources will not be allocated to keep Operational Data Store (ODS) reports for each submission current with any changes made to the report logic used in snapshot reports. This means that the ODS reports may not match the snapshot reports. LEAs are advised to rely on the snapshot reports to reconcile their local data.

Reconfirm Homeless Status

While there is no requirement to close homeless records at the end of each school year, LEAs should reconfirm homelessness at the beginning of the school year and close homeless program records for students who are no longer homeless. Optionally, LEAs may close out all homeless program records every year and then open a new program record for the new year.

Monitor the CALPADS communications webpage for frequent updates at <http://www.cde.ca.gov/ds/sp/cl/communications.asp>

Federal Funding

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

- **2016-17:** Small increases in funding for the Individuals with Disabilities Education Act (approximately \$40 million statewide) and Title I (approximately \$50 million statewide); level funding for Career and Technical Education. No Budget Control Act sequestration cuts.
- **2017-18:** Congress will determine actual funding when it returns for the post-election session in November and December.
- **Secure Rural Schools and Communities Act Funding (Forest Reserve):** The National Forest Counties and Schools Coalition has been working with Congress on a regular basis to secure ongoing funding for the Secure Schools and Communities Act, which sunset with the payment received in April 2016. They have good momentum with the committees and individuals they have been working with over the last year. However, there is currently no legislation to ensure future funding. They expect good support for an extension of the Secure Rural Schools funding after the November election. If it is not reauthorized, the funding reverts to the 1908 formula. School districts should contact their county offices for guidance regarding multiyear projections.

Basic Aid

As part of the enacted 2015-16 state budget, Education Code 42238.03(e) was amended to clarify that the minimum state aid (MSA) guarantee is intended to remain in effect indefinitely for basic aid districts.

Basic aid districts are eligible for the additional one-time mandate discretionary funds, as well as to participate in competitive grant proposals, in the Governor's 2016-17 budget.

Those districts receiving funding under the Basic Aid District of Choice program should be aware that the funding will flow through 2017-18 (pursuant to EC 48315) unless the Legislature takes action to extend it. Districts need to consider the reduction in funding in their MYP.

Some districts may be transitioning out of basic aid status. Such districts will need to work closely with their county office of education to track the budgetary and cash flow implications of the transition. The guarantee of a minimum of \$200 per ADA from Education Protection Account (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 were basic aid in 2012-13, and lost their basic aid status during transition to full implementation, will continue to have their MSA amount reduced by their 2012-13 fair share reduction amount.

As LCFF rollout continues, all districts need to have systems to implement LCAP actions, track data for the Annual Update and conduct ongoing stakeholder engagement to ensure successful implementation.

Charter Schools

Both charter schools and their authorizers need to remember that charter schools are exempt from a large portion of the statutory requirements imposed on traditional California school districts, but they must adhere to important provisions of the California Education Code centered around employment, facilities, safety, and LCFF funding (along with accountability through the LCAP).

For 2016 and 2017, \$20 million in one-time Prop. 98 support is available for startup costs for new charter schools to help offset the loss of federal funding. Funds will be available after the current federal funds designated for startups have been exhausted.

Proposition 39 – California Clean Energy Jobs Act

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.

Guidelines can be accessed at the website listed below.

Schedule

Program Fiscal Years	through 2017-18
Two fiscal year combined funding award requests	September 1 (annually)
Award calculation completed by CDE	October 30 (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 and Energy Commission	October 1 (annually beginning 2015)
Final Plan Approval	August 1, 2017
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

For additional information and a listing of LEA funding please visit the California Energy Commission’s webpage at: <http://energy.ca.gov/efficiency/proposition39/> and the CDE’s webpage at <http://www.cde.ca.gov/fg/aa/ca/prop39ccej.asp>.

Necessary Small Schools

EC Section 42238.03(e) was amended by AB104 to authorize minimum state aid after full transition to LCFF. The minimum state aid guarantee calculation will continue to include the deficated 2012-13 Necessary Small School (NSS) allowances, regardless of the current year NSS status, which may provide additional state aid to some districts until their LCFF net state aid amount surpasses the minimum state aid guarantee calculation.

EC Section 42285(4)(b)(3), which establishes eligibility for Necessary Small School (NSS) funding for a high school that is less than 287 students, is the only comprehensive high school in a unified district and with 50 or fewer pupils per square mile of the school district territory, sunsets July 1, 2017. As currently written, EC Section 42280 allows funding based on prior year eligibility, so schools impacted by the sunset provision can plan on receiving NSS funding in 2017-18 if they met the requirements for NSS funding in 2016-17.

Career Technical Education

Updated Grant Award Notifications (GAN) were distributed to LEAs in October 2016. The new award letter that must be signed and returned to CDE to accept the additional funds also extends the use of year one funding to June 30, 2019. Organizations that did not receive an updated GAN should contact their assigned CDE education programs consultant.

If their final award amount has changed, LEAs are required to provide matching funds based on this new amount. It is critical to remember that the LEA’s funding contribution increases over the course of the grant. An illustration of these incremental matching fund increases is below:

CTEIG Match Requirements		
July 1, 2015 to June 30, 2019	\$400,000,000	1-to-1
July 1, 2017 to June 30, 2018	\$300,000,000	1-to-1.5
July 1, 2018 to June 30, 2019	\$200,000,000	1-to-2.0

Additionally, the Annual Progress Report is due on December 1, 2016. As stated in a memo to CTEIG awardees dated September 27, 2016, failure to return either report will affect future and previous funding.

For specific information on the requirements for the Annual Progress Report, please see the CDE/CTE website.

Educator Effectiveness

If the district expends funds for this program, the plan shall be explained in a public meeting of the governing board before it is adopted in a subsequent public meeting prior to the end of the fiscal year in which the expenditures occurred.

On or before July 1, 2018, an LEA will submit a detailed expenditure report. The final expenditure report template can be found on CDE's website:
<http://www.cde.ca.gov/fg/aa/ca/educatoreffectiveness.asp>

Preschool and Child Care

The 2016-17 Budget Act provides \$3.7 billion for child care and preschool programs: \$1.8 billion for preschool programs, \$1.8 billion for child care programs, and \$89 million for support programs. These are the key budget changes from the 2016-17 Budget Act:

- **Reimbursement Rates:** The 2016-17 budget provides \$68 million for a 10% increase to the standard reimbursement rate starting January 1, 2017. The new rate for a full-day, center-based State Preschool slot is \$10,596 per year, whereas the new rate for a full-day, center-based General Child Care slot for a preschool-age child is \$10,530 per year.
- **Regional Market Rate (RMR) Increases:** The 2016-17 budget provides \$56 million to increase the RMR to the 75th percentile of the 2014 survey starting January 1, 2017. The budget package includes a two-year hold harmless provision such that providers receive the higher of the old or new rates. Trailer legislation specifies that after July 1, 2018, all rates are set at the 75th percentile of the 2014 survey.
- **License Exempt Rates:** The budget provides \$14 million to increase license-exempt rates from 65% to 70% of the family child care home rates starting January 1, 2017.
- **State Preschool Slots:** The budget provides \$34 million for the State Preschool program to annualize the cost of preschool slots added January 1, 2015. The budget also provides \$8 million for 2,959 new full-day State Preschool slots at LEAs starting April 1, 2017.
- **CalWORKs Child Care:** The budget adjusts the CalWORKs child care budget down by \$25 million compared to the 2015-16 Budget Act due to changes in caseload and underlying cost of care.
- **Additional Funding for Quality Improvement Activities:** Recent changes in federal law and additional federal funds the state is receiving require the state to spend \$12 million more on quality improvement activities than last year, bringing total quality improvement spending in 2016-17 to \$89 million. The budget also provides \$1.4 million one-time Prop. 98 general funds for the Los Angeles Trade-Tech Community College to provide job training, mentoring, and college courses to child care workers. These funds are available for expenditure through June 30, 2019.

Audit Requirements

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

At its June 2016 meeting, the EAAP adopted the permanent regulations for the 2016-17 Audit Guide, which is available at www.eaap.ca.gov. These changes will be effective July 1, 2016 for the annual 2016-17 fiscal year audit. The changes to the 2016-17 Audit Guide are as follows:

- Section R, Educator Effectiveness, is amended to add specific years, 2015-16 and 2016-17, to the directive that auditors confirm whether the LEA developed a plan for Educator Effectiveness expenditures. Previously, the step was merely to determine whether the LEA had adopted a plan.
- Section W, Unduplicated Local Control Funding Formula Pupil Counts, is amended to authorize auditors to select another student for a representative sample to replace selected students who have transferred to another LEA, in lieu of obtaining the needed information from the new LEA.
- Section Z, Immunizations, is amended to refer to current medical exemptions and personal beliefs exemptions filed before January 1, 2016, from measles testing; and to delete the personal beliefs exemption as to the T-dap vaccination, in accordance with SB 277.

SB 884, Special Education: Mental Health Services will be discussed at the next Audit Guide Committee meeting. This bill calls for audit procedures to be included in the audit guide to review whether funding for educationally related mental health services, pursuant to this item, were used by local educational agencies for the intended purposes in the 2016-17 fiscal year. More details on these procedures will roll out after the committee meets on this matter.

Summary

As stated in the Introduction, this edition of the Common Message is intended to provide information and guidance to assist LEAs in developing 2016-17 First Interim reports and their multiyear projections (MYPs). In the projection years, funding growth is expected to be limited as target funding approaches; employer contributions to retirement benefits are scheduled to rise; and requirements to improve academic performance increase. Special attention must be paid to out-year projections and the contributing factors both within and outside the control of district decision makers. To maximize success, districts will need to make deliberate use of resources and prudent fiscal decisions.