Santa Clara County Office of Education

Mary Ann Dewan, Ph.D., County Superintendent of Schools

**COUNTYWIDE CHIEF BUSINESS OFFICERS MEETING**
**AUGUST 22, 2019**
**9:30 a.m. to 12:00 p.m.**
**GILROY ROOM**

## AGENDA

Welcome and Introductions / Vision

Understanding Our Collective Strengths

Understanding Each Other

Continuous Improvement

Legislative and Budget Update - Leilani Aguinaldo, School Services of CA

CBO Roundtable

## MEETING SCHEDULE FY 2019-2020

| DATE | TIME | ROOM |
|---|---|---|
| August 22, 2019 | 9:30 a.m. - 12:00 p.m. | Gilroy Room |
| October 3, 2019 | 9:30 a.m. - 12:00 p.m. | Cupertino Room |
| November 14, 2019 | 9:30 a.m. - 12:00 p.m. | Cupertino Room |
| January 23, 2020 | 9:30 a.m. - 12:00 p.m. | Gilroy Room |
| February 27, 2020 | 9:30 a.m. - 12:00 p.m. | Oak Grove Room |
| March 19, 2020 | 9:30 a.m. - 12:00 p.m. | Gilroy Room |
| April 23, 2020 | 9:30 a.m. - 12:00 p.m. | Milpitas Room |
| May 21, 2020 | 9:30 a.m. - 12:00 p.m. | Milpitas Room |

# Santa Clara County Office of Education

## COUNTYWIDE CHIEF BUSINESS OFFICERS MEETING

## AUGUST 22, 2019


**Prepared By:**

**Leilani Aguinaldo**
**Director, Governmental Relations**

**Robert Miyashiro**
**Vice President**

School Services of California INC.
An Employee-Owned Company

*Public Education's Point of Reference for Making Educated Decisions*

The FISCAL REPORT an informational update

Volume 39 August 23, 2019 No. 17



# Education Funding Initiative to be Refiled for November 2020 Ballot

Proponents for the split-roll property tax initiative that has already qualified for the November 2020 ballot, (see Split-Roll Property Tax Measure Headed to 2020 Ballot in the October 19, 2018, *Fiscal Report*) have announced their intent to refile the initiative in the coming days.

According to a spokesperson for Schools and Communities First, the campaign sponsoring the initiative, the soon-to-be-filed initiative will correct timeline issues, provide small business tax relief, and ensure every school district receives funding in an equitable way.

The proposal will amend the 1978 Proposition 13 to require more frequent property tax value assessments for certain commercial and industrial properties in order to bring the values for these properties up to current market rates. The additional property tax revenues generated by this proposal would be distributed to local governments and K-14 education.

Originally, the California Schools and Local Communities Funding Act was intended to appear on the November 2018 ballot. However, by the time all the initiative signatures had been validated, the deadline had passed for the 2018 ballot and the initiative became eligible for the November 2020 ballot instead.

Once the refiled initiative receives a ballot title and summary from the Attorney General, proponents will be able to start collecting the more than 997,000 registered voter signatures to qualify for the November 2020 ballot. Assuming signatures are gathered in time, we would expect the original initiative to be pulled from the November 2020 ballot (sponsors can do so by summer 2020) and the sponsors to focus their campaign on this new version.

The split-roll initiative may not be the only K-14 funding initiative up for consideration by the voters in November 2020.

The California School Boards Association (CSBA) and the Association of California School Administrators (ACSA) are exploring their own proposal to increase funding for education.

While the details of the proposal are not yet in print, the CSBA-ACSA initiative would generate upwards of $15 billion annually for K-14 education through a permanent “millionaire’s” tax. K-12 funding would go out in a manner similar to the Local Control Funding Formula, the community college portion would focus on existing goals of the system—and all funds would be outside of Proposition 98 and the control of the Legislature.

Stay tuned!

[Posted to the Internet 8/13/19] ***—Dave Heckler and Michelle McKay Underwood***

School Services of California INC.

The FISCAL REPORT an informational update

Volume 39 August 9, 2019 No. 16



## New "Community Eligibility" Provision for State Preschool

The 2019 State Budget Act included a provision that generated little attention, but can help State Preschool providers serve more families in their communities—the new "community eligibility" provision.

Senate Bill 75 (Chapter 51/2019), the 2019 education omnibus trailer bill, adds Section 8236.3 to the Education Code authorizing contracted State Preschool Program providers, beginning January 1, 2020, to enroll four-year-old children who live within the attendance boundary of a public school that enrolls at least 80% of students eligible for free or reduce-price meals even if the monthly income of their families exceed the income eligibility thresholds. Income thresholds are currently set at or below 70% of State Median Income (SMI) for initial eligibility and at or below 85% of the SMI for ongoing eligibility, adjusted for family size.

Before enrolling four-year-old children through the community eligibility provision, providers must:

- Be operating a State Preschool Program within the attendance boundary of the qualifying public school

- Enroll children pursuant to existing enrollment priorities as established in Section 8236 of the Education Code, which gives first priority to neglected, abused, or at-risk children; second priority to eligible four-year-olds who are not enrolled in a transitional kindergarten program; and third priority to all other income-eligible three- and four-year-old children

- Require proof of residency for families seeking to enroll a four-year-old under the community eligibility provision

- Prioritize enrollment to children from families with the lowest income first to families with the highest income last

Finally, the 2019 Budget Act included clean-up language to apply the reimbursement rate adjustment factors for serving children with disabilities in part-day preschool programs of 1.54 and 1.93 for non-severely and severely disabled children, respectively. Last year's Budget provided the augmented rates only to full-day programs.

[Posted to the Internet 7/31/19] —*Leilani Aguinaldo and Patti F. Herrera*.

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***Ask SSC . . .***

## LEA Preschool Facilities Licensing Exemption

***Q.*** I saw your June 7, 2019, article about licensing exemptions for local educational agency (LEA) state preschool facilities from Community Care Licensing (CCL)—what does my district need to do to be exempt?

***A.*** Thank you for your question. Since we published "*Changes Coming for District Preschool Programs"* in the June 14, 2019, *Fiscal Report*, the California Department of Education (CDE) filed emergency regulations that govern the authority for and the conditions under which LEA state preschool programs may be exempt from conventional licensing requirements by the Department of Social Services. The regulations went into effect on July 1, 2019.

In order for LEAs to seek a licensing exemption, they must comply with all of the new regulations, which can be viewed by going to https://govt.westlaw.com/calregs/Browse/Home/California/CaliforniaCodeofRegulations?guid=I0CD75BBEE96E415C95457CD23D67BF12&originationContext=documenttoc&transitionType=Default&contextData=(sc.Default). The regulations limit eligibility for facilities exemptions to only state preschool program classrooms serving four-year-old children (thus, prohibiting the placement of three-year-old children in exempt classrooms) that meet new requirements pertaining to:

- Visual Supervision
- Indoor/Outdoor Space
- Restroom Facilities
- Drinking Water

Additionally, LEAs seeking exemption must submit the newly required "Self-certification for Classroom Exemption from Title 22 Requirements" to CSPPExempt@cde.ca.gov. Once the request is reviewed and approved, the CDE will issue a certificate certifying exemption from CCL regulations.

[Posted to the Internet 7/31/19] ***—Leilani Aguinaldo and Patti F. Herrera***

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## 2018-19 Attendance Rates Drop Slightly From Prior Year

Among all grade spans, average student attendance rates in 2018-19 have decreased slightly from 2017-18, according to the latest data available from the California Department of Education. Attendance rates for unified school districts dropped as well by nearly half a percent, while high school and elementary school attendance rates remained relatively flat during the same period.

With local educational agencies (LEAs) primarily funded based upon the average daily attendance (ADA) of students, attendance rates can have a significant financial impact. As in recent years, we have elected to report the average statewide student attendance rates in two different formats. Under the revenue limit, every LEA was funded at one flat rate per ADA (albeit a different rate from agency to agency), and it made sense to compare the attendance rates of agencies by type. The implementation of the Local Control Funding Formula (LCFF) included a transformation from one flat rate per ADA to rates that are differentiated by grade span, so we have included those attendance rates as well.

| Grade Span | 2016-17 | 2017-18 | 2018-19 | Change From 2017-18 to 2018-19 |
|---|---|---|---|---|
| Transitional Kindergarten-3 | 95.09% | 94.96% | 94.64% | -0.32% |
| 4-6 | 96.13% | 95.93% | 95.62% | -0.31% |
| 7-8 | 95.68% | 95.46% | 95.19% | -0.27% |
| 9-12 | 94.05% | 93.93% | 93.45% | -0.48% |

| District Type | 2016-17 | 2017-18 | 2018-19 | Change From 2017-18 to 2018-19 |
|---|---|---|---|---|
| Elementary | 95.88% | 95.66% | 95.67% | 0.01% |
| High | 94.18% | 93.85% | 94.04% | 0.19% |
| Unified | 94.90% | 94.75% | 94.34% | -0.41% |

Lost attendance, on average, costs approximately $58.50 per student per day using the 2019-20 LCFF funding rates. This does not count the revenue generated from other sources based upon ADA, such as Lottery funding. Even the loss of a fraction of a percent in the attendance rate can equate to a significant amount of lost revenue for an LEA. For a unified school district of 10,000 students, a decrease in the attendance rate of 0.15% represents nearly a $158,000 loss in revenues, while a 1% increase in the attendance rate can net more than $1 million in revenues from recovered ADA.

As we kick off this new school year, a focus on student attendance is key to managing LEA finances, but most importantly, for students to succeed. There are myriad strategies for improving student attendance, but it is not a “one-size-fits-all” scenario—a strategy that works well at one school may not work well at another. Also, the proper recording and reporting of student attendance is just as critical, as these procedures ensure that the LEA gets appropriate credit for the students that do attend school.

To learn more about managing the student attendance process, including school calendar development strategies and other budgeting tips and tricks, please join us at the Conquering Budgets Workshop.

[Posted to the Internet 7/26/19] ***—Dave Heckler and Debbie Fry***

School Services of California Inc.

The FISCAL REPORT an informational update

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# CalSTRS First Report on Progress of the Full Funding Plan

As part of the California State Teachers' Retirement System (CalSTRS) full funding plan approved by the Legislature in 2014, CalSTRS is required to submit regular reports on the progress being made towards a zero unfunded actuarial obligation (UAO) by 2046. In 2014, CalSTRS was projected to run out of money by 2046; due to Assembly Bill (AB) 1469 (Chapter 47/2014), the system will now reach a funded status of practically 100% by that same year. Its first report was sent to the Legislature last month and shows that the plan is working as intended.

AB 1469 requires this first report to compare the funding levels and projected contribution rates at the time the funding plan was enacted to those based on the June 30, 2018, actuarial valuation. The report must also indicate whether additional contributions are needed to reach full funding by 2046.

## Comparing Funding Levels

At the time AB 1469 was enacted, contribution rates were far below the level needed to sustain the system. And while the increasing contribution rates are beneficial to the UAO compared to the status quo, they are not currently enough to stop the UAO from growing. If the intent had been to stop the UAO from growing further, a huge increase in contributions would have been needed immediately. Instead, AB 1469 set the employer, state, and employee contribution rates to increase gradually over time to the level needed to bring the UAO to zero.

Since AB 1469 was enacted, the UAO has grown from $73.7 billion to $107.2 billion. CalSTRS expected the UAO to have grown to just $98.5 billion by this point; however, changes in demographic (retirees living longer) and investment return assumptions (a more realistic 7% compared to the prior 7.5%) both resulted in an even bigger-than-anticipated UAO. It's going to get worse before it gets better: the UAO is expected to peak in 2027 at approximately $111 billion and then decrease until 2046.

## Contribution Rates

AB 1469 assigned portions of the UAO to both the employer and the state and gave CalSTRS narrow authority to increase and decrease corresponding contribution rates to meet the goal of exhausting the UAO by 2046. Over the three years that the CalSTRS Board has had this authority, it has increased the state's rate by the annual maximum of 0.5%, and anticipates needing to do so over the next three years.

The CalSTRS Board does not yet have authority over the employer rate, which continues to be governed by statute. Prior to the action taken in the 2019-20 State Budget to provide contribution rate relief to employers, CalSTRS planned to reduce the employer rate to 18.3% effective July 1, 2021, and plans to make a reduction to 18.1% that year. When the full funding plan was put in place, CalSTRS believed they would need to continue to raise employer rates, potentially up to the statutory maximum of 20.25%. But the influx of employer contributions due to an increased number of active members (hiring) and employee compensation (raises) will actually reduce the employer contribution rate relative to the anticipated level.

## Future Risks

The report also explains risks facing the system: longevity, declines in membership, and investment:

- Longevity—while CalSTRS recently changed its demographic assumptions to recognize its retirees living longer, longevity risk is a slowly developing phenomenon that could take decades before it is recognized that retirees are living (and receiving benefits) even longer than currently assumed

- Declines in Membership—several factors could contribute to a decline in active membership including a recession necessitating staff reductions; charter school staff growing (charters are not required to participate in CalSTRS); and student population decline

- Investment—the biggest risk to the system is investment returns falling below forecast levels, as demonstrated during the depths of the Great Recession: CalSTRS posted a -4% investment return in 2007-08 and -25% in 2008-09

Any one or a combination of these risks could knock the current full funding plan off track and in extreme cases, CalSTRS would not be able to increase state and employer contributions sufficiently to meet the full funding goal of 2046. In this case, CalSTRS stresses the importance of acting quickly, noting that if its current authority to raise state and employer contribution rates had been in place during the Great Recession, the system would currently enjoy a 70% funded status versus its current 64%.

The full report is available at https://www.calstrs.com/sites/default/files/file-attachments/calstrsfundingplanreport.pdf.

[Posted to the Internet 7/26/19] ***—Michelle McKay Underwood***

School Services of California INC.

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# CalSTRS 2018-19 Investment Earnings Fall Short of Forecast

On Tuesday, July 24, 2019, the California State Teachers' Retirement System (CalSTRS) reported that investment earnings for the 2018-19 fiscal year are 6.8%, falling below its forecasted 7% return. While most investment areas outperformed the 7% forecast—especially in the areas of private equity (10.5%) and innovative strategies (9.2%)—areas such as public equity (5.3%) and inflation sensitive assets (6.0%) fell short.

Investment earnings are critical to the funded status of the CalSTRS retirement plan, along with contributions from employers, employees, and the state. The California Public Employees' Retirement System (CalPERS) reports that overall, the system enjoys an estimated 64% funded status.

The 2018-19 returns bring the long-term investment earnings to:

- 6.9% for the last 5 years
- 10.1% for the last 10 years
- 6.2% for the last 20 years
- 8.0% for the last 30 years

The one-year and longer-term earnings are very similar to CalPERS, which reported a 6.7% return for 2018-19.

[Posted to the Internet 7/25/19] ***—Michelle McKay Underwood***

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The FISCAL REPORT an informational update

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## State Revenues Close Out 2018-19 Strong

State General Fund revenues for the last month of the 2018-19 fiscal year beat the forecast by $409 million, or 2.1%. Combined with the strong performance from May, General Fund revenues for the prior fiscal year exceeded the May Revision forecast by $1.041 billion, an auspicious start for 2019-20.

The Department of Finance's (DOF) July 2019 *Finance Bulletin* shows that the personal income tax exceeded the forecast by $104 million, or 0.8%, and the corporation tax outperformed the forecast by $323 million, or just over 10%. The sales and use tax fell short by $77 million, or 2.8%. All other taxes and revenue sources were a net $59 million above the forecast. Over the last five fiscal years, the 2018-19 final tally was the second best, exceeded only by 2017-18 when revenue collections exceeded the forecast level by $1.5 billion.

The DOF *Bulletin* also notes that both the California and the national unemployment rates remain at near record lows. For June, the California unemployment rate stood at 4.2%, and the U.S. unemployment rate was 3.7%, just 0.1% above the 50-year record low of 3.6% set in May.

On a related note, the U.S. added 224,000 jobs in June, a strong performance given many economists' expectations of a slowing job market. Of this national total, California accounted for about one-fifth of the gain, or 46,200 jobs. The Golden State accounts for about one-eighth of the U.S. population.

The growth rate of the California economy continues to outpace that of the nation as a whole. State personal income has grown on average 5.3% annually since 2010 compared to the U.S. rate of 4.3% over the same period. Most recently, California personal income grew 4.4% in the first quarter of 2019 compared to 3.8% for the nation.

Finally, the *Finance Bulletin* indicates that residential building permits issued for the first five months of 2019 were down 12.2% compared to the same period in 2018. For the month of May, single-family building permits were down 13.9% compared to May 2018 and multi-family building permits saw an even steeper decline of 42.2%.

[Posted to the Internet 7/23/19] ***—Robert Miyashiro***

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# SBE Incorporates Five-Year Graduation Rate Into the Graduation Rate Indicator

At its July meeting, the State Board of Education (SBE) unanimously approved a new combined four- and five-year graduation rate for the Graduation Rate Indicator, which will be applied to the 2019 California School Dashboard (Dashboard).

Currently, the Dashboard captures the four-year cohort graduation rate and the one-year Dashboard Alternative Schools Status (DASS) graduation rate in the Graduation Rate Indicator. However, data related to a five-year graduation rate has been available on the Dashboard for informational purposes since April 2019 (see "Updates to the 2018 California School Dashboard," in the April 19, 2019 issue of the *Fiscal Report*). It's important to note that the five-year graduation rate will only apply to nonalternative schools, since the Graduation Rate Indicator for schools with DASS is calculated using the grade twelve one-year graduation rate.

To calculate the new combined graduation rate, the number of students who graduated in five years is added to the numerator and the denominator of the four-year cohort rate. The five-year graduation rate is intended to include the high school outcomes in year five of the students that did not graduate with their preceding four-year cohort. As a result, the combined graduation rate offers schools and districts additional time and incentive to work with and provide support to those students who did not graduate within four years. Additional details and data regarding the calculation of the combined graduation rate are available at https://www.cde.ca.gov/be/ag/ag/yr19/documents/jul19item01.docx.

While the vote to approve the new rate was unanimous, some of the board members expressed concern about how the new rate could affect schools that are currently receiving Comprehensive Support and Improvement (CSI) funding under the Every Student Succeeds Act (ESSA) (see "CDE Releases List of Schools That Qualify for CSI and ATSI Under ESSA," in the February 8, 2019 issue of the *Fiscal Report*). California Department of Education (CDE) staff noted that applying the combined graduation rate to the 2018 data would have lifted 27 CSI schools over the 67% graduation threshold, meaning that those schools would not have qualified for the CSI funds this year. To address this concern, SBE President Linda Darling-Hammond said that the SBE and CDE staff will reassess the threshold and status cutoffs in the fall in order to evaluate how this new rate will affect schools moving forward.

You can find the other topics discussed by the SBE at the July meeting at https://www.cde.ca.gov/be/ag/ag/yr19/agenda201907.asp. The next SBE meeting will be September 11-12, 2019.

[Posted to the Internet 7/19/19] ***—Kyle Hyland and Leilani Aguinaldo***

School Services of California INC.™

The FISCAL REPORT an informational update

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## 2018-19 Preliminary Investment Earnings Announced by CalPERS

On Thursday, July 11, 2019, the California Public Employees' Retirement System (CalPERS) reported that preliminary investment earnings for the 2018-19 fiscal year are 6.7%, falling below its forecasted 7% return. While the areas of fixed income and private equity funds both outperformed the 7% forecast, all other asset classes fell short.

Investment earnings are critical to the funded status of the CalPERS retirement plan, as they are counted on for generating nearly two-thirds of the pension benefits paid to retirees. CalPERS reports that overall, CalPERS enjoys an estimated 70% funded status, nearly unchanged since last year.

The 2018-19 returns bring the long-term investment earnings to:

- 5.8% for the last 5 years
- 9.1% for the last 10 years
- 5.8% for the last 20 years
- 8.1% for the last 30 years

As can be seen above, while the 7% investment return assumption is reasonable when looking at the 30-year returns, the investment losses during the Great Recession—most significantly a loss of 24% in 2008-09—and anemic earnings during some of the recovery years caused the earnings over the last 20 years to fall below the target.

For CalPERS employers, the investment returns for a given year impact the employer contribution rates two years later. The most recent estimates, which reflect the 2019-20 State Budget funding to reduce the immediate and long-term employer contribution rates, can be found on the current School Services of California, Inc., Financial Projection Dartboard.

[Posted to the Internet 7/11/19] ***—Michelle McKay Underwood***

School Services of California INC.

The FISCAL REPORT an informational update

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***Ask SSC . . .***

## What Pupil Count Date is Being Used for the Special Education Preschool Funding?

***Q.*** What pupil count date is being used for the Special Education preschool funding?

***A.*** On slide 51 of our School Finance and Management Conference presentation, we estimate this funding at approximately $8,975 per pupil. Our estimate is based on the December 1, 2018, pupil count and represents the number of 3, 4, and 5-year olds with an individualized education program (IEP) and who were not enrolled in a transitional kindergarten or kindergarten program on that date.

Given that the trailer bill language specifies that funding will be based on current-year pupil counts, we believe the actual level of funding will likely be based upon the December 1, 2019 pupil count. Preschoolers are the fastest growing group of students with disabilities, with an increase of nearly 5% between 2017-18 and 2018-19. With continued growth in this population, we would expect the per-pupil amount to be slightly below our estimates.

There is still uncertainty related to this new grant, including whether it is the district of residence or service that will be allocated the funding as this is not specified in the law itself and both data points are available to the state. Additionally, it is unclear if the state will provide an advanced apportionment based on the 2018 pupil count and true up later. These issues may need to be resolved in a State Budget clean up trailer bill. If so, that would likely be amended into a bill after the Legislature returns from its summer recess on August 12, 2019.

Stay tuned . . .

[Posted to the Internet 7/11/19] ***—Suzanne Speck and Dave Heckler***