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November 5, 2013

To: Superintendents
Assistant Superintendents, Business Services
Assistant Superintendents, Human Resources
Assistant Superintendents, Curriculum and Instruction

From: Wendy Benkert, Ed.D.
Associate Superintendent, Business Services

**Re: 2013-14 First Interim Budget Advisory**

The budget advisory is intended to provide information and guidance to assist local educational agencies (LEAs) in preparing the 2013-14 First Interim Report.

It contains significant updates related to the Local Control Funding Formula (LCFF) Calculator, SB 97 cleanup legislation, a wide array of technical clarifications provided by the California Department of Education (CDE) and the Department of Finance (DOF) relative to LCFF, and a new section on upcoming audit requirements.

As always, we encourage school districts to be proactive and maintain the most flexibility as possible. Please contact me at (714) 966-4229 if you have any questions or concerns about this information.

Enclosures

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# Introduction

This budget advisory is intended to provide information and guidance to assist LEAs in developing 2013-14 First Interim Reports. It contains significant updates from the Enacted Budget edition related to enacted cleanup legislation SB 97, a wide array of technical clarifications provided by the California Department of Education (CDE) and the Department of Finance (DOF), and a new section on upcoming audit requirements.

The 2013-14 budget provides increased funding for schools, primarily in the form of $2.1 billion to implement the Local Control Funding Formula (LCFF), and $1.25 billion in one-time money for Common Core implementation. While the Common Core funds have begun to flow to LEAs, the advance apportionment is still largely based on the revenue limit model because LCFF entitlements will not be certified until P-2. Investing the time to read through the guidance contained herein and to fully utilize the LCFF Calculator will help district leaders to complete the necessary calculations, and to understand and communicate the complexities and implications of the LCFF.

The LCFF is intended to correct historical inequities and increase flexibility, but it also brings new challenges, as LEAs must quickly adapt to a new funding model. In addition, many of the details of the new accountability structure are yet to be determined. Key components, including regulations on the use of Supplemental and Concentration Grants and the format for Local Control Accountability Plans (LCAP), will be determined by the State Board of Education, which will take action on these items in the first quarter of 2014. A detailed review of what *is* known about the LCAP is covered in the LCAP section of this document.

Fiscal year 2013-14 is a period of transition. Our office is available to assist districts with the complexities of implementing the LCFF and the LCAP.

# Proposition 98 Revenues

For 2012-13, the adopted budget projected Proposition 98 revenues at $56.5 billion. (Actual cash receipts for 2012-13 exceeded the budget by just over $2 billion.)

| Fiscal Year 2012-13 | Projected Statewide Revenue | Prop 98 Calculation | Property Tax Portion of Prop 98 | State Budget Portion of Prop 98 | Non-Prop 98 Budget | Ending Balance |
|---|---|---|---|---|---|---|
| **January** | $ 95.4 | 53.6 | 16.1 | 37.5 | 55.4 | 0.8 |
| **May** | 98.2 | 56.5 | 16.1 | 40.4 | 55.2 | 0.9 |
| **Adopted** | 98.2 | 56.5 | 16.1 | 40.4 | 55.2 | 0.9 |

(all numbers in billions)

For budget year 2013-14, Proposition 98 funding is projected at $55.3 billion – *down* $1.2 billion from the 2012-13 projection.

| Fiscal Year 2013-14 | Projected Statewide Revenue | Prop 98 Calculation | Property Tax Portion of Prop 98 | State Budget Portion of Prop 98 | Non-Prop 98 Budget | Ending Balance |
|---|---|---|---|---|---|---|
| **January** | $ 98.5 | 56.2 | 15.4 | 40.9 | 56.8 | 1.6 |
| **May** | 97.2 | 55.3 | 16.0 | 39.3 | 57.0 | 1.7 |
| **Adopted** | 97.1 | 55.3 | 16.3 | 39.0 | 57.2 | 1.7 |

(all numbers in billions)

The Legislative Analyst's Office as well as the Legislature projected significantly more 2013-14 revenue than the final numbers included in the adopted state budget. Revenues for 2012-13 as of the end of June were $2 billion higher than the numbers contained in the adopted state budget. These factors indicate there could eventually be a moderate but positive change in the 2013-14 statewide budget. Current statewide receipts as of September 30, 2013 are tracking 0.7% above DOF budget projections. The next significant revenue update will be with the Governor's January budget proposal.

# LCFF Calculator

The LCFF Calculator has been developed in consultation with the California Department of Education (CDE) and the Department of Finance (DOF) to ensure that the source of the cost of living adjustment (COLA) percentage(s) and the application in the calculation reflect the language as passed through legislation solidifying the LCFF.

The most recent version of the LCFF Calculator has been posted to the Fiscal Crisis and Management Assistance Team (FCMAT) website at www.fcmat.org and is a great tool for estimating LCFF entitlements for multi-year financial projections.

The following statement can be found on the FCMAT website:

"The LCFF Calculator has been produced to the best of our ability based on the information that is currently available to our development working group, FCMAT and our colleagues in the California Department of Education. While the state transitions to the Local Control Funding Formula, it is likely that there will be additional changes in policy and in the fiscal application of the law that will affect the function of the Calculator. This, in turn, will impact budget development and fiscal projections at district and charter schools. As those changes become available, FCMAT will revise the Calculator and provide the field with update notification using the new LCFF Listserve.

The LCFF Calculator, Calculator Caveats and LCFF Listserve Subscription and LCFF Online Help Desk links are accessible below. The LCFF Calculator link provides access to the latest LCFF Calculator, V14.3. The Calculator Caveats link provides access to "Calculator Caveats", an attempt to identify known issues, assumptions and unique situations that are common to this version of the LCFF Calculator. Please consider the

information contained in this document when utilizing the LCFF Calculator. The LCFF Listserve link provides access to our Listserve subscription page where three new Listserve mailing lists have been created. Each of these new Listserve mailing lists has been created to support dialog focused on matters specifically related to the Local Control Funding Formula and the unique application to school district, dependent charter school, independent charter school and county office of education calculations. The LCFF Online help link provides access to FCMAT's free online helpdesk, created to assist in providing committed support to users related to questions pertaining to the Local Control Funding Formula."

The LCFF Calculator is designed to provide the heavy lifting of calculating the LCFF, specific to each LEA. Because of this, the LCFF Calculator is password protected to protect the data from inadvertent formula errors.

The LCFF Calculator is designed to calculate the LCFF for 2013-14, 2014-15, and 2015-16. The calculator continues to accommodate all types of districts, including basic aid districts and necessary small schools, as well as charter schools. Further, it provides input fields to incorporate year-to-year changes in COLA, ADA, property taxes, unduplicated counts and LCFF implementation (gap funding). Additional features include K-3 Class Size, Economic Recovery Target (ERT) payments and graphical demonstrations of multi-year funding. The calculator also incorporates the minimum state aid calculations of the LCFF.

# Local Control Funding Formula (LCFF)

The LCFF is intended to provide a funding mechanism that is simple and transparent while allowing local educational agencies (LEAs) maximum flexibility in allocating resources to meet local needs. While the formula itself is relatively straightforward, the transition from revenue limit funding to the LCFF is very complex. The primary cause for this complexity is the state's commitment to ensuring all LEAs are funded at no less than they received in 2012-13. This is simple in concept and extremely complex in application. The following describes only the basic components of the formula and transition into the LCFF. The complexity of the transition funding is best captured in the LCFF Calculator found on the FCMAT website.

The most distinct difference between revenue limit funding and the LCFF during the transition relates to the role and impact of COLA. Under revenue limits, COLAs (and their deficits) played the central role in determining changes in year-over-year funding. Under the LCFF, COLAs are but one step in the formula's calculation. With the LCFF, there are four driving factors:

- **Average Daily Attendance (ADA)**
  - Similar to revenue limits, funding is calculated on ADA

- **Annual COLA**

  - Determined by the implicit price deflator as set in May for the budget year and estimated by the DOF for the two subsequent years for use in multi-year projections (MYPs)

    - Applied to Grade Level Base Grants, which then drives grade span adjustment and Supplemental and Concentration grant calculations

    - DOF currently estimates 2014-15 COLA at 1.87% and 2015-16 COLA at 1.99%

- **Unduplicated Percentages**

  - Certified through an LEA's California Longitudinal Pupil Achievement Data System (CALPADS) data each fall (Applied to Supplemental and Concentration grant calculations)

- **Percentage of Gap Funding During Transition**

  - Set by the DOF for the current year and estimated by the DOF for the two subsequent years for use in MYPs

## *New Funding Formula Introduces New Terminology*

- Minimum State Aid - "hold harmless" funding set at 2012-13

- Floor - Transition base funding

- Transition Entitlement - the amount an LEA will receive during transition

- Base Grants - Grade level base grants established for K-3, 4-6, 7-8, 9-12

- Grade Span Adjustments (GSA) - K-3 and 9-12 additional funding for class size and CTE

- Base Grade Span - Base grants plus GSA

- Supplemental Grants - Additional 20% of Base Grade Span for percentage unduplicated students

- Concentration Grants - Additional 50% of Base Grade Span for percentage of unduplicated students above 55%

- ERT - Economic Recovery Target

## *Economic Recovery Target (ERT)*

Districts and charter schools with undeficited 2012-13 base revenue limit, general purpose and categorical funding per ADA that is equal to or below $14,500, and that exceeds their computed LCFF entitlements at full implementation, will be restored to their undeficited funding through a supplemental ERT payment. ERT payments are calculated as follows:

Districts and charter schools that are eligible for ERT funding will receive the difference between their LCFF target and their LEA's 2012-13 undeficited funding, multiplied by 2013-14 COLA of 1.57%, multiplied by a COLA of 1.94% for each year between 2014-15 through 2020-21. This amount is then divided into one-eighth payments beginning with 1/8 in 2013-14, increasing by 1/8 annually until the full payment becomes a permanent add-on, starting in 2020-21. This calculation is built into the BASC LCFF Calculator. At this time, it doesn't appear that any Orange County school districts will receive ERT funding.

## *Transitioning to the LCFF*

During the transition period a district's LCFF starts with historical funding for state aid, as amended for growth (or decline) in ADA, and most state categorical programs. This total is then subtracted from the district or charter school's target LCFF amount to measure the funding gap. The percentage of gap funding provided in this year's budget is then added to the historical base to arrive at the LCFF transition level for 2013-14.

Beginning in 2014-15, the prior year's gap funding is added to the historical 2012-13 base after adjusting for growth or decline in ADA. The 2012-13 base is then measured against the LCFF target to determine the new gap. The funded gap is added to the base to arrive at the total LCFF transition grant for that year. This cycle continues adding gap funding to the base as ongoing revenues until the LCFF is fully funded.

The LCFF calls for year-to-year growth in Proposition 98 revenues to fund the gap each year until the LCFF is fully funded. The enacted budget provides $2.1 billion toward first-year implementation. This is sufficient to fund 11.78% of the gap in 2013-14.

Specific areas of the LCFF including Charter Schools, K-3 24:1 class size, and Basic Aid are covered in greater detail following this section.

## *Treatment of ADA under the LCFF*

While many of the elements used to calculate ADA remain unchanged under the LCFF, the basic calculation of the target grant begins with a measurement of ADA by grade span. Since budget adoption, SB 97 changed the methodology for distributing ungraded ADA.

SB 97 changes the treatment of ADA for declining enrollment districts by using ADA by grade span for the prior year. Additionally, districts may collect all ADA on a grade span

basis. The LCFF Calculator has been constructed to allow ADA entry by grade span **or** as ungraded for each type of ADA currently reported as ungraded.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Enter ADA. Calculator will use greater of current or prior year ADA.** | | | | | | | | |
| Enter Regular ADA by grade span. Enter 'Ungraded' ADA EITHER by grade span OR on the Ungraded rows | | | | | | | | |
| | | | | | | | | |
| ADA | ADA to use: | 2012-13 | 2013-14 | 2014-15 | 2015-16 | | | |
| Grades K-3 | P-2 (Annual for SDC ext. year) | | | | | District ADA funded on better of current or prior year | | |
| Grades 4-6 | | | | | | | | |
| Grades 7-8 | | | | | | | | |
| Grades 9-1 | | | | | | | | |
| Ungraded (enter here **OR** in spans above) | | | | | | | | |
| NPS, NPS-LCI, CDS: | | | | | | | | |
| K-3 | Annual | | | | | District ADA funded on current year Annual | | |
| 4-6 | | | | | | | | |
| 7-8 | | | | | | | | |
| 9-12 | | | | | | | | |
| Ungraded (enter here **OR** in spans above) | | | | | | | | |
| COE operated (Community School, Special Ed): | | | | | | | | |
| K-3 | P-2 / Annual | | | | | COE operations funded on current year | | |
| 4-6 | | | | | | | | |
| 7-8 | | | | | | | | |
| 9-12 | | | | | | | | |
| Ungraded (enter here **OR** in spans above) | | | | | | | | |

Under current language of the LCFF, ADA served in county operated programs are reported as district ADA. Under the revenue limit, any such ADA was included in the district's total ADA to calculate the revenue limit apportionment. The resulting apportionment was then transferred to the county office of education (COE). Under the LCFF, apportionments generated by county operated ADA will remain with the district. The CDE is working with the DOF in an effort to replicate the prior practice of revenue transfers for this apportionment. There is, however, no provision for this in 2013-14. For comparative purposes, the LCFF Calculator allows exclusion of county operated ADA to provide a closer estimate of funding that replicates the previous apportionment transfer practice.

## *Calculating the LCFF*

Each district and charter school is uniquely affected by the LCFF, especially during transition. The LCFF Calculator is designed to calculate the LCFF for 2013-14, 2014-15,

and 2015-16 fiscal years. The calculator is constructed for all types of districts, including basic aid as well as charter schools. Further, it provides input fields to incorporate year-to-year changes in COLA, ADA, property taxes, unduplicated counts and LCFF implementation (gap funding percentages). Additional features include K-3 grade span adjustment (GSA) conditional apportionment, ERT payments and graphical demonstrations of multiyear funding. Finally, the calculator incorporates the minimum state aid calculations of the LCFF. See the LCFF Calculator section for more information.

## *Cost of Living Adjustments*

During the transition to full LCFF implementation, COLA is not the key determinant of increases in funding. The difference between a district's starting point, its LCFF target (gap) and the state's LCFF gap percentage funding will be the drivers of funding for all districts until full implementation.

Under the LCFF, the 2013-14 COLA of 1.57% is applied to the entitlement targets. Districts are funded at 11.78% of the difference between 2012-13 revenues and the target amounts. The LCFF Calculator will yield specific projected dollars and percentage funding increases for individual districts and charter schools.

Districts whose current funding exceeds their LCFF target amount (hold harmless/minimum state aid) will not receive a COLA. Annual COLAs are applied to LCFF target amounts. Once the LCFF is fully funded, the base LCFF amounts will receive annual COLA increases when funded.

The Situational Guidance and Multi-Year Projections section of this budget advisory discusses potential COLAs in the subsequent years.

## *Supplemental and Concentration Grants*

Education Code Section 42238.02 increases the LCFF base grant by a supplemental grant and a concentration grant. These are determined by the district's or charter school's unduplicated count of pupils who are eligible for free and reduced price meals, or who are classified as English Learners, or as Foster Youth. The use of these funds will be subject to regulations to be adopted by the State Board of Education on or before January 31, 2014. See the Local Control Accountability Plans section of this document for more details.

The Superintendent of Public Instruction will annually compute the percentage of unduplicated count using the criteria above, utilizing data reported through CALPADS. A pupil who is identified in more than one category will only be counted once in determining the unduplicated pupil count. This data is subject to annual review and verification by the county office of education and is subject to audit under the state audit guidelines.

The unduplicated pupil count percentage is computed as follows:

1. For the 2013-14 fiscal year, divide the sum of unduplicated pupils for the 2013-14 fiscal year by the sum of the total pupil enrollment for the 2013-14 fiscal year.

2. For the 2014-15 fiscal year, divide the sum of unduplicated pupils for the 2013-14 and 2014-15 fiscal years by the sum of the total pupil enrollment for the 2013-14 and 2014-15 fiscal years.

3. For the 2015-16 fiscal year and each fiscal year thereafter, divide the sum of unduplicated pupils for the current fiscal year and the two prior fiscal years by the sum of the total pupil enrollment for the current fiscal year and two prior fiscal years.

The supplemental grant is equal to 20% of the grade span base grant as increased by the grade-span adjustments of 10.4% in K-3 and 2.6% in 9-12, multiplied by the unduplicated pupil count percentage calculated above. The supplemental grant shall be expended in accordance with the regulations adopted pursuant to Section 42238.07.

If the LEA's unduplicated pupil count percentage exceeds 55% then the district or charter school will receive a concentration grant. The concentration grant is equal to 50% of the grade span base grant for each applicable grade level, after being increased by the additional adjustments for the K-3 and 9-12 grade span adjustments. For example, an LEA with a 60% unduplicated percentage would receive a concentration grant for 5% of its ADA.

For a charter school physically located in only one school district, the charter school's percentage of unduplicated pupils in excess of 55% used to calculate the concentration grant cannot exceed the percentage of unduplicated pupils in excess of 55% of the school district in which the charter is located. For a charter school physically located in more than one school district, the charter school's percentage of unduplicated pupil count in excess of 55% cannot exceed that of the school district with the highest percentage of unduplicated pupil count in excess of 55% of the school districts in which the charter school has a school facility. The concentration grant shall be expended in accordance with the regulations adopted pursuant to Section 42238.07.

## *Minimum State Aid (Hold Harmless)*

Per the LCFF, local education agencies are to receive minimum state funding of no less than the total received in the 2012-13 fiscal year, as adjusted for changes in ADA and property taxes.

The calculation of the "hold harmless" minimum state aid funding is made on a per-ADA basis and is a combination of the following funding sources:

- All revenue limits received in 2012-13 adjusted for ADA and current year property taxes
- For charter schools, all charter general purpose block grant received in 2012-13 and the amount of in-lieu property tax received in 2012-13 divided by 2012-13 ADA, multiplied by current ADA.
- All 2012-13 state categorical funding (including funding received for mandatorily expelled community day school pupils).
  - See Appendix A for full list of categorical programs included in the calculation.
- For basic aid districts, categorical programs are subject to an 8.92% fair share reduction, calculated on the 2012-13 revenue limit entitlement.
- For charter schools, charter categorical block grant and charter supplemental categorical block grant received in 2012-13, divided by 2012-13 ADA, multiplied by current year ADA.

Hold harmless minimum state aid provisions specific to certain programs/funding types have been enacted per the LCFF. Greater detail of these programs and how they are affected by the minimum state aid provisions can be found in the sections of this message that are dedicated to the program/funding type (e.g., Pupil Transportation, Regional Occupational Centers/Programs (ROC/P)). Also, the LCFF Calculator can be used as a reference tool in determining minimum state aid funding.

## *K-3 Grade Span Adjustment (GSA)*

The base grant for the K-3 grade span increases by an add-on of 10.4%. The intent of this adjustment is to cover the costs associated with smaller class sizes in grades K-3, including transitional kindergarten (TK), to an average by school site of no more than 24:1 (or a locally bargained alternative ratio) at full implementation of the LCFF.

During implementation of the LCFF, and as a condition of receipt of this adjustment, districts will be required to either:

1. Have a class size ratio of 24:1 or less at each school site in 2013-14 and maintain that ratio in the future,
2. Collectively bargain an alternative class size ratio for this grade span, or
3. Show adequate progress toward meeting the goal of 24:1 each year until full implementation of the LCFF.

LEAs that fail to meet the above requirements will lose 100% of the additional funding. During implementation, the loss will be proportional to the amount of gap funding the LEA would otherwise receive by reducing the LCFF target.

## *LCFF Calculator*

As a means of managing this risk, LEAs may choose to utilize the LCFF Calculator to help determine if adequate progress is made toward the ratio of 24:1 for each school site. By modeling different school site staffing scenarios, LEAs can compare any calculated funding loss with the cost of hiring additional staff. Districts that meet the requirements of No. 1 and/or No. 2 above are exempt from the requirements of No. 3. However, school districts must maintain class enrollment per school site of not more than 24 unless collectively bargained.

The K-3 GSA is a conditional apportionment dependent on the district making adequate progress at all school sites toward a class size of 24:1. The class size tab in the calculator has been designed to remove the K-3 GSA if a district fails to make adequate progress. Districts also have the option to collectively bargain an alternate ratio. There is no criteria to allow a district to make progress toward its collectively bargained ratio, and the class size tab of the calculator would not be applicable. In addition, the condition of apportionment does not apply to charter schools; therefore, there is no need to use the class size tab for charter school calculations.

## *Method for Making "Progress Toward"*

Districts that do not meet No. 1 and/or No. 2 above will be required to demonstrate adequate progress toward reducing class sizes to 24:1. If a district's LCFF gap funding is negative or zero, the district must maintain the same class enrollment for each school site in the 2013-14 year, unless there is a collectively bargained alternative ratio. Adequate progress is determined by multiplying the gap between the district's current average class size by site by the percentage of LCFF gap funding provided in the state budget.

1. Determine each school site's 2012-13 average class enrollment for grades K-3.

2. Subtract the target average class enrollment of 24 from the averages determined in Step 1 above to determine the difference at each school site.

3. Multiply the difference calculated in Step 2 by the gap percentage for that year to determine the amount class size should be reduced (adequate progress). The LCFF Calculator, Class Size Tab allows the user to override the percentage to conduct a sensitivity analysis for the out-years.

4. Subtract the adequate progress in Step 3 from the prior year's average class size. This provides the maximum class size necessary to meet the K-3 GSA condition of apportionment.

For example, if a district's total funding gap is $1 million, it receives $100,000 in 2013-14 as funding to close that gap and has a class size ratio of 30:1 for grades K-3 in 2012-13, the 2013-14 class size adjustment would be calculated as follows:

1. 2012-13 class size (30) minus target class size (24) = 6

2. Adjustment that must be made to 2013-14 class sizes to receive funding 6 x 11.78% = .70

3. Class size ratio necessary to receive funding in 2013-14 = 30 – 0.7 = 29.3

Note that the calculation will be rebenched each year, so a district that makes *more than* adequate progress will not get credit for that progress in the subsequent year (e.g., the district in the example above goes to a 28:1 ratio in 2013-14). Class sizes for grades K-3, as established by this section, are longer subject to waiver by the State Board of Education pursuant to Section 33050 or by the Superintendent of Public Instruction.

Procedures for determining whether the district meets the new requirements will be included in the state audit guidelines.

## *Pending Procedures for K-3 GSA*

Education Code Section 42238.02(d)(3)(F) calls for the State Controller's Office to provide "procedures for determining if the average class enrollment for each schoolsite for kindergarten and grades 1 to 3, inclusive, exceeds 24 pupils, or an alternative average class enrollment for each schoolsite pursuant to a collectively bargained alternative ratio. The procedures for determining average class enrollment for each schoolsite shall include criteria for employing sampling." One possible methodology for calculating a district's school site average would be to use the current Grade 4-8 class size average calculation. This calculation methodology is a "simple average" calculated pursuant to Education Code Section 41376(b) that states the class size is determined by the number of pupils in Grades 4-8 enrolled at the school site, divided by the number of full-time equivalent classroom teachers for Grades 4-8 at the school site. Applying this same methodology to grades TK-3 (recall that TK is the first year of a two-year kindergarten program), the resulting quotient would be the district's school site average. If rounding is necessary, the state could use the current rounding methodologies employed by the CDE in the P-2 attendance reporting period Class Size Penalties report. Although regulations have not yet been drafted, this methodology may be forwarded for approval in spring 2014.

Special Education special day class (SDC) students will be reported by grade to determine LCFF funding; therefore, these classes will also be included in the school site class size average.

## *Targeted Instructional Improvement Grant; Home-to-School Transportation*

The enacted budget maintained the Targeted Instructional Improvement Grant (TIIG) and Home-to-School Transportation as permanent add-ons to LCFF entitlements.

The two programs have been repealed although the funds are made available to the school districts, county offices of education and charter schools that previously received this funding in the form of a hold harmless. The funds will be treated as a permanent add-on under the LCFF. The July budget trailer bill clarifies that small school district transportation is included in the transportation add-on.

The use of the funds was intended to be flexible for any educational purpose. However, the budget contains transportation maintenance of effort (MOE) language [see Education Code 2575(k)(1) and Education code 42238.03(a)(6)(B)]. Of the funds received for home-to-school transportation, a school district is required to expend no less than the amount of funds the school district expended for home-to-school transportation in the 2012-13 fiscal year. The MOE requirement only applies to spending up to the amount of the transportation entitlement received in 2012-13; contributions to transportation programs above the amount of the entitlement are not subject to MOE. Unlike the JPA requirements (see below) and similar ROC/P and Adult Education MOE provisions that sunset in two years, this requirement is ongoing.

School districts and county offices of education should review district and local priorities in assessing the use of these funds. No COLA will be added to these funds in the future.

## *CALPADS*

The LCFF provides supplemental funding for students that are eligible for free and reduced price meals (FRPM), are English Learners (EL), or are foster youth. Because of this, the FRPM, EL and foster youth counts will be all the more important. The CDE anticipates that apportionments will be certified at P-2 using Fall 1 2013 CALPADS data.

Fall 1 data collection is open between October 2 and December 13, 2013. Following this initial collection deadline, the CALPADS Fall 1 amendment window opens December 14, 2013, and closes on February 7, 2014.

It is imperative for districts to develop or refine their system for accurately gathering, reporting, and certifying data in CALPADS. Districts should consider printing the CALPADS report and comparing it to the FRPM and EL counts reported in their student information system. Additionally, districts should consider having the EL coordinator and administrator of the child nutrition program review and certify that the CALPADS report accurately reflects the student population.

Flash #75 notes that LEAs may determine whether a student meets the income requirements for National School Lunch Program (NSLP) eligibility using an alternative process to the NSLP application process, and may submit NSLP program records to CALPADS for these students.

On October 25, the CDE released five sample forms that can be accessed on their website. Links and descriptions of the forms are provided in the Provision 2 & 3 section below.

Although audit guidelines have not been developed, the process each LEA develops to distribute, collect, and determine eligibility should be clearly documented. LCFF does not require that LEAs be audited on the income verification process used to determine eligibility, but it does require that annual audits verify that CALPADS counts are consistent with pupil records.

## *County Operated Enrollment*

Students served in county programs who are otherwise funded through their district of residence under the LCFF will ultimately be reported by the district of residence. Currently there is no mechanism for districts to report these students within CALPADS. Consequently, for the 2013-14 year, COEs will continue to include these students with their data. (See the County Office of Education Revenue Transfers section for further details on this issue).

## *CALPADS Data Use*

The data certified in the CALPADS annual submissions are used for many purposes including funding calculations for various state and federal programs. FCMAT/CSIS has prepared a table of CALPADS submissions, how data reported to CALPADS are used to meet state and federal requirements, and the consequences for failure to certify by the deadline (see Appendix E).

CALPADS now includes Education Program Code 185 to capture transitional kindergarten participation, which is required to be reported beginning in 2013-14.

New federal verification reporting requirements necessitate identifying students that are directly certified as eligible for FRLP through the Supplemental Nutrition Assistance Program (SNAP) and Temporary Assistance for Needy Families (TANF) programs. This requires coordination with the Department of Health Care Services and California Department of Social Services to expand the reporting protocols. A table in Flash #76 fully explains the expanded CALPADS codes.

## *Difference in Socioeconomically Disadvantaged Definitions*

On May 10, 2013, the CDE provided information on the difference in socioeconomically disadvantaged definitions through CALPADS Update Flash 74. The socioeconomically disadvantaged (SED) No Child Left Behind (NCLB) subgroup displayed on CALPADS

reports cannot be compared to the total FRPM count displayed on Report 5.1a – Free or Reduced Price Meal Eligibility – Count, because:

- The NCLB subgroup includes parent education level in the definition of SED. Therefore, students with parents whose highest educational level is "not a high school graduate" *are* included in the NCLB subgroup; and

- The NCLB subgroup includes students with an FRPM program record, and it *does not* include students who were directly certified, or who are migrant, homeless, or foster, unless those students also have an FRPM program record.

## *Provision 2 and 3 Schools*

The Superintendent of Public Instruction (SPI) issued a letter to superintendents dated September 27, 2013, extending the amendment window through March 21, 2014 for Provision 2 and 3 schools. LEAs that process FRPM or alternative forms after census day in October, but before the end of CALPADS Fall 1, may update CALPADS with these records with an effective date of the student's enrollment date for that school year. *CALPADS will only include students enrolled on Fall 1 census day in the FRPM counts.* Although LEAs with Provision 2 and 3 schools have an extended window to finalize amendments, they are encouraged to complete data collection, input, and review by December 13, 2013.

Schools with a National School Lunch Program (NSLP) Provision 2 or 3 status are prohibited from collecting FRPM applications for individual students. On May 30, 2013, the CDE released CALPADS Update Flash #75, which provides guidance for reporting SED students in Provision 2 and 3 schools for accountability purposes. Guidance has changed beginning in the 2013-14 school year, as LEAs should no longer submit NSLP records for all students in Provision 2 and 3 schools. The CDE will use the following student data from CALPADS for accountability purposes:

1. Students who are eligible for FRPM based on application for the NSLP or who are determined to meet the same income eligibility criteria for NSLP through their local schools.

2. Students who are automatically eligible for free meals based on their foster, migrant, or homeless status.

3. Students who are directly certified as being eligible.

4. Students with parents whose highest educational level is "not a high school graduate."

Flash #75 notes that LEAs may determine whether a student meets the income requirements for NSLP eligibility using an alternative process to the NSLP application process, and may submit NSLP program records to CALPADS for these students.

Although audit guidelines have not been developed, the process each LEA develops to distribute, collect, and determine eligibility should be clearly documented. **LEAs will not be audited on the income verification process used to determine eligibility.**

California School Information Services (CSIS) developed a sample alternative form that is available at http://csis.fcmat.org/Pages/Tools-Samples-Links.aspx.

On October 25th, the CDE released sample alternative forms that school districts can use to collect income eligibility for LCFF.

Sample 1: This form collects information for multiple children in a household. Parents/guardians would calculate their annual income and select among income ranges.

Sample 2: This form collects information for multiple children in a household. Parents/guardians would list their income sources and amounts. The school would determine whether the income falls within specified ranges.

Sample 3: This form collects information for multiple children in a household. Parents/guardians would select among income ranges, which are presented for various frequencies of payment (weekly, monthly, yearly, etc).

Sample 4: This form collects information for one child. Parents/guardians would provide their total income and household size. The school would determine whether the income falls within specified ranges.

Sample 5: This form collects information for multiple children in a household. Parents/guardians would list their income sources and amounts. The school would determine whether the income falls within specified ranges. The form includes other information that the school may wish to collect, such as eligibility for benefits under various federal programs.

## *Basic Aid*

The LCFF changes the determination of a basic aid district. Basic aid districts were previously defined as districts having property taxes in excess of their revenue limit entitlement. The LCFF language states the determination of 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.

Under the LCFF, a basic aid district is defined as a district whose 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.

Under the LCFF, basic aid districts will receive minimum state funding of no less than the amount received in 2012-13. The hold harmless amount will be calculated based on

the categorical allocation net of 8.92% fair share reduction. However, the fair share reduction is limited by the district's property taxes in excess of the 2012-13 revenue limit and by the total of all categoricals enumerated by the LCFF.

Each basic aid district is uniquely funded. Some are only in basic aid status because the LCFF is not yet fully funded, while others are and will remain basic aid under full implementation of LCFF. Also, basic aid districts receive varying levels of categorical funds, as reduced by the fair share calculation.

Through the hold harmless, minimum state aid language of the LCFF, each basic aid district will be guaranteed to receive state aid equal to its 2012-13 categorical funding, after fair share reductions calculated at 8.92%.

Basic aid districts will be subject to the Local Control and Accountability Plan (LCAP) and Supplemental and Concentration Grant regulations under LCFF. See the Local Control Accountability Plans and Supplemental and Concentration Grants sections for guidance.

## *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 (see EPA section), and is in addition to the $120 basic aid guarantee.
- Court-ordered is at 70% of district of residence LCFF base grants transitional or funded amount until full implementation (excluding supplemental and concentration grants).

## *Education Protection Account (EPA)*

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.

Through the implementation of the LCFF, basic aid districts that lose their basic aid status may receive a proportionate offset to the $200 per ADA minimum in EPA funding as state aid revenues grow. The LCFF Calculator includes this offset calculation. During the period when a basic aid district transitions from basic aid to state funded, however, the additional EPA minimum revenue should not be budgeted until the transition complexity of this calculation is fully vetted with the CDE.

### *Cash and Reserves for Basic Aid Districts*

Basic aid districts should carry higher than minimum reserves. Dependence on property taxes means dependence on assessed property values. Greater than minimum reserves provide a buffer should assessed values fall short of projections. Moreover, basic aid districts whose student population is growing do not receive additional funding.

With the LCFF implementation, those districts that became basic aid by virtue of the deficit factor under revenue limit may convert to being state funded through the LCFF. Districts are advised to be cautious in planning for this possibility. Cash flow will be seriously affected for districts transitioning out of basic aid status. For 2013-14, the CDE is providing apportionments based on the funding status of the district in 2012-13. Although this is problematic in "normal" years, it will have a longer cash flow impact in 2013-14. This could mean a district will be treated as a basic aid district by the CDE and an LCFF district by its county auditor. Basic aid districts are advised to work closely with our office in projecting their current and future basic aid status.

## *Charter Schools*

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

Similar to school districts, charters will receive a base rate for each of the four grade spans, and add-on funding for the new K-3 grade span adjustment (10.4%) and 9-12 grade span add-on (2.6%). However, charter schools are not subject to the 24:1 K-3 class size condition of apportionment.

Charters will also receive supplemental and concentration grants based on their unduplicated pupil counts (see Supplemental and Concentration Grants section and CALPADS section for more information), but a charter school's concentration grant percentage will be limited to the percentage associated with the school district where the charter school resides. If the charter school is physically located in more than one school district, then the charter's percentage cannot exceed that of the school district with the highest percentage. Other aspects of charter school funding remain unchanged in the LCFF, including in-lieu property tax transfers, and the use of current year ADA even in the case of declining enrollment.

The 2013-14 adopted budget also requires charters to abide by many of the same elements as required in district local control and accountability plans (LCAP). Charters will be required to annually update goals related to those elements:

- A charter school petition must include a description of the school's annual goals for all students and for each subgroup of students to be achieved in applicable state priority areas.

- A charter school must update its goals as identified in the charter petition beginning in 2015, no later than July 1 of each year, using a template adopted by the State Board of Education and including the following:
    - A review of the progress toward the goals included in the charter, and an assessment of the effectiveness of the specific actions of the charter school in meeting its goals.
    - A list and description of the expenditures for the subsequent year implementing the specific actions included in the charter.
    - If a charter school fails to improve outcomes as identified in the charter petition for three or more pupil subgroups, three out of four consecutive years (or all of the charter school's pupil subgroups if the charter school has less than three pupil subgroups), the following may apply:
    - The chartering authority shall provide technical assistance to the charter school, using a State Board of Education adopted evaluation rubric, by October 2015.
    - The Superintendent of Public Instruction may assign, at the request of the chartering authority and approved by the State Board of Education, the California Collaborative for Educational Excellence (CCEE) to provide technical assistance to the charter school.
    - The chartering authority shall consider charter revocation for a charter school that receives CCEE technical assistance, and either fails to implement the CCEE recommendations or has persistently or acutely underperformed based on the SBE adopted evaluation rubric.

Other charter school-specific provisions of the budget include:

- Giving charters priority claim on surplus district property for five additional years. This extends the current one-year requirement for school districts with surplus property to first offer to sell or lease the facility to charter schools.
- Consolidating charter financing authority by shifting the Charter School Facility Grant program and the Charter School Revolving Loan Fund program from the CDE to the California School Finance Authority.
- Allowing online charters to access facilities funding by expanding the Charter School Facility Grant program to include eligibility for non-classroom based charter schools (online charters).

- Charter Categorical Block Grant received in 2012-13 is converted to a per ADA amount for inclusion in the LCFF Floor. This amount is annually adjusted for ADA.

## Adult Education

Adult Education funds are folded into the LCFF and are intended to be flexible for any educational purpose. However, the enacted budget changed provisions for adult education from the status quo to a maintenance of effort model for two years. For the 2013-14 and 2014-15 fiscal years only, the district or county office of education shall expend no less for the Adult Education program than the amount spent in the 2012-13 fiscal year. The recently chaptered LCFF cleanup bill, SB 97, clarified that school districts and county offices of education will satisfy the maintenance of effort requirement if they collectively maintain Adult Education on a countywide basis.

Maintenance of effort is not a condition of apportionment. It is unclear exactly how a definitive required maintenance of effort level would be determined, because Tier III flexibility and LCFF provide no dedicated Adult Education funding source.

The budget requires the Chancellor of the Community Colleges and the state Department of Education to jointly provide two-year planning and implementation grants to regional consortia and community college districts to develop regional plans to better serve the education of adults.

The regional consortia shall consist of at least one community college district and at least one school district within the boundaries of the community college district, and either entity may serve as the fiscal agent. Consortia may include other entities providing adult education courses, including but not limited to correctional facilities, other local public entities and community based organizations.

It is the legislation's intent for consortia to work toward developing common policies and full articulation agreements between adult education coursework and Career Technical Education coursework or college coursework, as well as fee and funding levels. In addition, the legislation's intent is to provide additional funding in the 2015-16 fiscal year to regional consortia to expand and improve the provision of adult education. For more information on the implementation of the planning grants and consortia see http://ab86.cccco.edu/Home.aspx.

## Foster Youth Services

The state Foster Youth Services program provides support services for foster children, who often experience multiple placements in foster care. The State Budget removed Foster Youth Services from the list of categorical programs that are rolled into the LCFF. County superintendents retain the responsibility to coordinate services for foster youth

between child welfare agencies, schools, juvenile court and probation. This also includes the efficient transfer of health and education records between those agencies.

By February 1, 2014 the state Department of Social Services must enter into a memorandum of understanding (MOU) with the CDE to share data related to pupils in foster care. The CDE is then required to inform school districts, charter schools, and county offices of education, at least weekly, of any pupils that are enrolled in their schools who are in foster care to ensure these students receive the appropriate educational support and services.

Students identified as foster youth are included in the unduplicated counts used in calculating supplemental and concentration grants. The Governor also now includes foster youth as a subgroup in the Academic Performance Index that is subject to growth targets as set by the State Board of Education.

## *Regional Occupational Programs / Career Technical Education*

The enacted budget includes ROC/P as part of the LCFF base for districts and county offices that received the Tier III funding directly from the state. However, the budget included maintenance of effort requirements stating that, "for the 2013-14 and 2014-15 fiscal years only, of the funds a school district (or COE) receives for purposes of regional occupational centers or programs […] the school district shall expend no less than the amount of funds the school district expended for purposes of regional occupational centers or programs […] in the 2012-13 fiscal year."

The recently chaptered LCFF cleanup bill, SB 97, clarified that school districts and county offices of education will satisfy the MOE requirement if they collectively maintain ROC/P spending, including CTE expenditures, on a countywide basis. Specifically the bill states, "a school district may include expenditures made by its county office of education within the school district [and vice versa for COEs] for purposes of regional occupational centers or programs so long as the total amount of expenditures by the school district and the county office of education equal or exceed the total amount required to be expended for purposes of regional occupational centers or programs" ... pursuant to Section 2575(k)(3) (COE requirement) and Section 42238.03(a)(7) (district requirement).

SB 97 also maintains and clarifies the separate MOE requirements related to ROC/P JPAs.

Maintenance of effort is not a condition of apportionment. It is unclear exactly how a definitive required maintenance of effort level will be determined, given that under Tier III flexibility and LCFF there is no dedicated ROC/P funding source.

While the original LCFF proposal required the 2.6% augmentation to the high school grade span base grant to be used to promote "college and career readiness" (see Section 42238.02.d.4. B-D), cleanup bill SB 91 removed these restrictions. Nonetheless, the intent of this funding remains to allow districts to provide for CTE in a manner consistent with the LCFF's focus on flexibility and local control. In addition, beginning in 2014-15, a CTE component will be a required element of Local Control and Accountability Plans. SB 97 clarified that LCAPs should include goals related to the percentage of pupils that complete "career technical education sequences or programs of study that align with state board-approved career technical educational standards and frameworks."

Another significant CTE related provision of the enacted budget is the inclusion of $250 million in one-time funding for Career Technical Education Pathway Grants to be competitively awarded for work-based learning programs. Although no official timeline has been released, it is anticipated that an RFP will be issued in January, with a deadline for proposals in March or April, and with funding awards released as early as June or July.

Federal CTE funds, including Perkins funding, are not part of LCFF and continue to be subject to all existing compliance and reporting requirements.

## *Revenue Limit Transition / Advance Apportionment*

The LCFF eliminates revenue limits and corresponding add-ons and adjustments. This includes elimination of the revenue limit adjustment for State Unemployment Insurance (UI), Public Employees Retirement System (PERS) Reduction, Meals for Needy Pupils, and Beginning Teacher Salary. The current level of funding for these programs is folded into the LCFF. These amounts will no longer be adjusted for changes in districts' UI expenditures or in PERS contribution rates.

Districts are expected to cover any increased costs associated with unemployment insurance expenses, PERS rates or other district-specific adjustments as currently applied to district revenue limit calculations.

| Revenue Limit Factors | 2011-12 | 2012-13 | 2013-14 3/ |
|---|---|---|---|
| Statutory COLA | 2.24% | 3.24% | N/A |
| Funded COLA | 0% | 0% | N/A |
| Deficit Factor | -20.40% | -22.27% | N/A |
| PERS Rate/RLR | 10.92% | 11.42% | N/A |
| Unemployment Insurance Rate | 1.61% | 1.10% | N/A |

3/ Under the LCFF, deficit factor will be restored and new COLAs will be provided through the establishment of individual per ADA target funding levels for school districts and charter schools. PERS RLR and UI adjustments are no longer applicable under the new formula.

### *Advance Apportionment*

While the new LCFF is effective July 1, 2013, the CDE has not yet incorporated many of the LCFF provisions into its apportionment systems. The advance apportionment for 2013-14 is based on a statutory derivation pursuant to Education Code Sections 14002 through 14007 and 41301. Section 41330 directs the CDE to apportion money in the advance apportionment on the basis of the second principal apportionment (P-2) from the preceding fiscal year. It includes categorical funding entitlements from 2012-13 rolled into the LCFF. Consequently, this advance apportionment includes only minimal changes enacted by the 2013 Budget Act and implementing legislation, including AB 97. **Because this apportionment is merely a means to begin allocating funds in accordance with EC Section 41330, it should not be used for budget purposes. Actual final funding under the new LCFF formulas will differ from this advance.** The CDE anticipates calculating LEA funding using the new LCFF formula in the 2013-14 P-2 apportionment, which will be certified on or before July 2, 2014.

## *COE Revenue Transfers*

Traditionally, revenue limit for students in county-operated special day classes and community schools has been transferred to COEs based on the base revenue limit of the student's district of residence. However, under the LCFF, these funds instead flow to the student's resident school agency, requiring a transfer to the COE. The funding will be accounted for as part of a district's funding under the LCFF.

For students that are mandatorily expelled, probation-referred, on probation or parole, or incarcerated and served by the county office of education, the COE receives funding directly from the state. If a COE enrolls a student not funded pursuant to these four cases, any attendance generated by that student is credited to the school district of residence. So that the percentage of unduplicated students can be calculated for supplemental and

concentration grants, under Education Code Section 42238.02, the CALPADS data collection process will need to be updated so the enrollment of these students can be attributed to the school district of residence.

Under local control, if a district enrolls its students in a COE program, the district will need to transfer the revenue for those students to the COE. Previously this was done by the CDE. The CDE is working with the DOF in an effort to replicate that practice. With the change from revenue limit to LCFF, however, there is no statutory authority for the CDE to continue to transfer the funding at this time. Therefore, the CDE will not facilitate these transfers under the LCFF for the 2013-14 year.

For the 2013-14 advance apportionment, which is based on the prior year, funding for county office funds transfers is equal to 2012-13 P-2 amounts. Because the changes for LCFF apportionments have not yet been made, the advance apportionment maintains the cash flow status quo (transferring the funds to COEs and reducing district apportionments). The adjustment of cash flow will not be made until the apportionment calculated with LCFF funding is certified, at the Second Principal Apportionment in July 2014. This impacts various programs operated by the COE: Special Day Class, Opportunity and Community "A" & "B" students, etc. Information from the CDE is anticipated that will clarify this change in funding and the impact to LEAs' cash flow.

## *Local Control and Accountability Plans*

Effective 2014-15, the LCFF requires local accountability plans in shifting control of LEA budgets from the state to the local level. The adopted budget specifies the required components of the accountability plans as they apply to districts, county offices of education and charter schools.

A Local Control and Accountability Plan (LCAP) must be adopted by June 30 prior to the fiscal year for which it is created, starting with 2014-15. Plans must be aligned and adopted with the district's budget beginning with fiscal year 2014-15.

The LCAP must include the following:

- For the district and each of its school sites, a description of the goals to be achieved for each state priority (listed below) for all pupils and each pupil subgroup identified as part of the LCFF.

- A plan that will be effective for a period of three years, with an update prepared before July 1 of each year.

- Specific actions the school district will take during each year of the LCAP to achieve district goals, including budget amounts allocated to carry out specific actions necessary for that year to correct any deficiencies and comply with state priorities.

- A list and description of expenditures implementing the specific actions and the expenditures that will serve identified unduplicated pupils, and pupils redesignated as fluent English proficient.

- District goals must be aligned with and address the following state priorities:

  - proper teaching assignments/proper credentials for instructional staff.

  - sufficiency of standards-aligned instructional materials.

  - school facilities maintained and in good repair.

  - implementation of academic content and performance standards (including how programs and services will enable EL students to access common core).

  - parental involvement and input at each school site and district.

  - pupil achievement as measured by:

    - statewide assessments and the Academic Performance Index.

    - percentage of pupils successfully completing courses that satisfy post 12th grade coursework.

    - percentage of EL pupils who make progress as measured by the CELDT and EL reclassification rate.

    - percentage of pupils who have passed an Advanced Placement exam with a score of 3 or higher.

    - percentage of pupils who demonstrate college preparedness pursuant to the Early Assessment Program.

  - pupil engagement (based on school attendance rates, chronic absenteeism, middle school dropout rates, high school dropout rates, high school graduation rates).

  - school climate (as measured by pupil suspension/expulsion rates and/or surveys of parents, pupils and teachers).

  - the extent to which pupils have access to, and are enrolled in, a broad course of study.

  - Pupil outcomes.

- Evidence that the governing board has consulted with teachers, principals, administrators, local bargaining units, other school personnel, parents and pupils in developing an LCAP.

The annual update will be developed using a template provided by the State Board of Education (SBE) and include all of the following:

- A review of any changes in the applicability of the annual goals as set forth by the prior year's LCAP.
- A review of the progress toward the goals (assessment of the effectiveness of the existing LCAP and a description of changes to be made as a result of the review and assessment).
- A list and description of the expenditures for the fiscal year implementing the specific actions included in the LCAP as a result of the review and assessment.
- A list and description of expenditures for the fiscal year that will serve identified pupils (EL, FR) using appropriate goals and functions per the California School Accounting Manual.

Before the governing board of a school district adopts an LCAP or annual update, the following must occur:

- Superintendent presents the LCAP to the Parent Advisory Committee and the English Learner Parent Advisory Committee. The superintendent must respond, in writing, to comments received from the English Learner Parent Advisory Committee.
- Superintendent must notify members of the public of the opportunity to submit written comments regarding the LCAP or annual update, using the most efficient method of notification possible. Printed or mailed notices are not required.
- Superintendent reviews school plans for district schools to ensure they are consistent with strategies included in the LCAP.
- At a minimum, one public hearing must be held by the district governing board to solicit recommendations and comments from the public prior to adoption of the LCAP.
- Adoption of the LCAP must be in a public meeting. This meeting shall be held after, but not on the same day as the public hearing.
- Revisions to the LCAP are permitted during the period it is in effect but only after it has been adopted, and the revisions must be adopted by the governing board in a public meeting.

### *Establishment of Committees*

- The governing board of a school district must establish a Parent Advisory Committee to provide advice to the governing board and the superintendent.

- The Parent Advisory Committee must include parents or legal guardians of pupils that meet one or more of the definitions in Section 42238.01.

- If a Parent Advisory Committee already exists and meets the specified requirements, the district is not required to establish a new committee.

- The governing board must establish an English Learner Parent Advisory Committee if the enrollment of the school district includes at least 15% English learners and has at least 50 pupils who are English learners.

- If an English Learner Parent Advisory Committee already exists and meets the specified requirements, the district is not required to establish a new committee.

### *County Office Approval and Assistance*

Similar to a district budget, county superintendents may not approve an LCAP or annual update if deficiencies exist. LCAPs or annual updates must adhere to specified expenditure requirements relating to unduplicated pupils. Districts can turn to a COE for technical assistance in creating the district LCAP or annual update. Intervention will be offered by any of the following: written guidance from the COE, assignment of an academic expert/team, or assignment of the California Collaborative for Educational Excellence (CCEE). The CCEE will be comprised of a five-member governing board. This board will contract with a local education agency (or consortium) to operate as a fiscal agent of the collaborative. This fiscal agent will contract with individual LEAs or organizations with expertise and record of success to carry out the purposes of the LCAPs.

If the sole reason for a budget being disapproved is the lack of an approved LCAP or annual update, the requirement for formation of a budget review committee is waived.

If over a four-year period interventions are not successful **and** the CCEE makes a determination that a school district's "inadequate performance is so persistent and acute that state intervention is required," the Superintendent of Public Instruction may, with the approval of the State Board, do one or more of the following:

- Make changes to an LCAP.

- Develop and impose a budget revision that would allow for improved outcomes for all pupil subgroups.

- Stay or rescind an action (if that action is not required by a local collective bargaining agreement) that would prevent the district from improving outcomes for all pupil subgroups.

- Appoint an academic trustee.

### *State Board Regulations*

Further details for the LCAP will follow upon adoption of regulations by the SBE by January 31, 2014. The SBE will then, by March 31, 2014, adopt templates for LEAs to use in the development of their accountability plans for 2014-15. Thereafter, any revisions to the template shall be made by the SBE prior to January 31 of each year.

Regulations will be adopted by the SBE to govern expenditures for identified pupils with regard to supplemental and concentration grants. Per 42238.07 (a), an LEA is to "use funds apportioned on the basis of the number of unduplicated pupils for schoolwide purposes … in a manner that is no more restrictive than the restrictions provided for in Title I of the Federal No Child Left Behind Act of 2001." These regulations are to be adopted on or before January 31, 2014.

An initial conceptual framework for the regulations and the LCAP will be presented at the November 6 and 7 SBE meetings, and the agenda item materials can be reviewed at **http://www.cde.ca.gov/be/ag/ag/yr13/documents/nov13item13.doc.**

The remainder of this section provides highlights excerpted from the SBE agenda materials:

***Local Control and Accountability Plan Guiding Principles***

Simple: Avoids plan duplication, jargon, and non-essential information.

Transparent: Includes information necessary to demonstrate/describe/explain how LCFF funding supports student performance and outcomes.

Local: Expects information shared to be highly contextual and supports the sharing of a local story.

Performance-Focused: Emphasizes student performance outcomes and avoids compliance-oriented information requests and questions (e.g., checkboxes and explanation of processes).

**Examples of How Regulations May be Demonstrated**

Stakeholder input indicates there is significant variability in the local context within which the Local Control Funding Formula (LCFF) will be implemented. However, the expectation that the LCFF supports increased performance and improved outcomes

applies to all local educational agencies (LEAs). A document providing non-binding examples of how LEAs may provide evidence of the selected option to demonstrate "increased or improved services for unduplicated pupils in proportion to the increase in funds apportioned," (EC 42238.07) while satisfying the intent of the LCFF statute may be useful. The following are some examples that could be included in such a document.

***Spend More***

The following is an example of how an LEA may demonstrate the "spend more" option. This is example is one way this could be demonstrated and is not intended to serve as guidance or direction.

Increase Spending Relative to the Proportion of Local Control Funding Formula Base and Supplemental Funding

For increased funding attributable to the LCFF above the prior year (i.e., incremental increase attributable to the LCFF), calculate the proportion of "new" funding that is provided as base versus supplemental/concentration. Add this amount to the prior year level of spending for students in need (e.g., low income, English learners, and foster youth) in the relative ratio of such funding at the LCFF target (full implementation). At full implementation the amount spent will meet or exceed the target for the supplemental/concentration funding level.

***Provide More***

The following are examples of how an LEA may demonstrate the "provide more" option. These examples are not intended to serve as guidance or direction.

Add or improve services to provide more to unduplicated students; examples include, but are not limited to:

Extend learning time for unduplicated pupils: Add learning time through summer school, intersession, and/or before- or after-school programs.

Increase learning options: Add specialized programs and/or staff (e.g., intervention support, instructional aides, reduced class sizes, and technology support) to increase support for unduplicated pupils.

Offer targeted professional development: Some or all teachers participate in professional development to improve learning support for unduplicated pupils.

Provide supplemental learning materials: Provide print, technology, equipment, and/or supplies to address learning needs of unduplicated pupils.

***Achieve More***

The following option is an example of how local educational agencies (LEAs) may demonstrate the "achieve more" option. This example is not intended to serve as guidance or direction.

Provide evidence of significant growth in the preceding two- or more year period for unduplicated pupils, as documented by state or local data indicating student performance on the Local Control Funding Formula (LCFF) state priorities as identified in Education Code sections 52060(d), 52066(d), or 47605(b)(5)(B) for the local educational agency.

***Comments about Format***

The first version of the LCAP will be in an editable template format that can be downloaded for use and posted for review at an LEA Web site. In all likelihood it will be organized into sections (elements) with guiding questions intended to generate thoughtful analyses of each LEA's data and findings. It is envisioned that once the State Board of Education (SBE) adopts the template, an online tool can then be created that pre-populates data, aids in the efficient completion of the LCAP, and facilitates transparency.

# Audit Requirements

The enacted budget and subsequent cleanup legislation call for multiple new or revised audit requirements. Proposed audit procedures to implement the legislative requirements will be 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). It is likely that some of the new requirements will be adopted as emergency regulations for the 2013-14 audit guide, while others will be adopted through the standard regulatory process for implementation in 2014-15.

A listing of significant new or revised audit procedures to be developed is provided below.

New LCFF/LCAP related audit requirements:

- Attendance reporting - update grade span for applicable programs
- CalPADS / unduplicated counts - verification that counts are consistent with pupil records
- K-3 Grade Span Adjustment - verification that average class enrollment by school site meets the LEA target
- LCAP - verification that expenditures are consistent with the LCAP

Additional new or changed audit requirements:

- Charter School Facility Grant – California School Finance Authority
- California Clean Energy Job Creation Act (Proposition 39)
- Class Size Reduction (old program) - remove
- Common Core Implementation Funds
- Kindergarten Continuance - technical change (name of form)
- Instructional materials (changes to or deletion of current procedures)
- Instructional time (changes to current procedures)
- Middle College ADA per SB 379
- Multitrack charter ADA
- OMB A-133 Compliance Report - name change
- Prop 39 bond audits per SB 584

At the two committee meetings convened thus far this fall, specific proposals have been reviewed to address the items listed below. While none have been finalized, these procedures are more likely to be addressed as emergency regulations for 2013-14, while those not listed below ***may*** be delayed until the 2014-15 Audit Guide.

- Attendance reporting - update grade span for applicable programs
- CALPADS / unduplicated counts - verification that counts are consistent with pupil records
- Class Size Reduction (old program) - remove
- Common Core Implementation Funds
- Kindergarten Continuance - technical change (name of form)
- Instructional time (changes to current procedures)
- Middle College ADA per SB 379
- Multitrack charter ADA
- OMB A-133 Compliance Report - name change

# Cash Management

Even though the LCFF is projected to bring fiscal relief to LEAs, cash management is still essential.

The state is committed to reducing debt as evidenced by the repayment of cross fiscal year deferrals during 2012-13 and 2013-14. At the peak in 2011-12, deferrals totaled $9.4 billion, but are projected to decrease to $5.6 billion in 2013-14.

A significant change to LEA cash flows occurred in 2012-13 with the passage of Proposition 30, which established the Education Protection Act (EPA) whereby temporary sales tax and income tax revenues are collected and distributed to schools. EPA will be apportioned quarterly in 2013-14. The first EPA apportionment of 2013-14 ($1.38 billion) was distributed on September 24, 2013. EPA entitlement and apportionment details may be accessed at http://www.cde.ca.gov/fg/aa/pa/documents/epapayschedlea13adv.xls). LEAs may also find more information about EPA on the CDE's webpage: http://www.cde.ca.gov/fg/aa/pa/epa.asp.

Although the LCFF is effective beginning in 2013-14, EPA entitlements will continue to be calculated on the revenue limit formula.

## *2013-14 Advance Principal Apportionment*

The 2013-14 advance principal apportionment is based on an LEA's 2012-13 P-2 certification but is adjusted to reflect the state increases due to the LCFF. A 4.62% increase was included for school districts and charter schools, and a 3.66% increase was included for COEs. LEAs should not budget based on the figures in the 2013-14 advance principal apportionment certification because their actual LCFF funding will be based on factors including attendance data, unduplicated count of FRPM/English learners/foster youth, local property taxes, etc. However, LEAs may use the advance principal apportionment certification to help with projecting cash flow through January 2014.

## *Intrayear Principal Apportionment Deferrals*

With the exception of EPA, intrayear apportionment deferrals do not exist in 2013-14.

## *Cross Fiscal Year Principal Apportionment Deferrals*

When Proposition 30 passed, 2012-13 K-12 principal apportionment cross fiscal year deferrals were reduced by $2.065 billion. Additionally, the 2013-14 State Budget Act includes a $1.590449 billion reduction in K-12 deferrals for 2012-13. However, the $1.590449 billion buy-down did not increase the amount of cash received by June 30, 2013, as it simply accelerated the accounting recognition of buying down a significant portion of P-1 deferrals that occurred in 2012-13.

K-12 principal apportionment cross fiscal year deferrals decreased from $9.4 billion in 2011-12 to $7.4 billion in 2012-13 and will be reduced to $5.6 billion in 2013-14 (see table below). Since the remaining cross fiscal year deferrals are ongoing, LEAs should continue to incorporate them in their cash flow projections for future periods. Please see Appendix C for a graphic illustration of statewide principal apportionment deferrals in 2013-14.

| **Time Frame** | **2012-13** | **2013-14** |
|---|---|---|
| **February to July** | $531.720 million | Rescinded |
| **March to August** | $1.029493 billion | Rescinded |
| **April to August** | $763.794 million | Rescinded |
| **April to July** | $594.748 million | $917.542 million |
| **May to July** | $1.976701 billion | $2.152430 billion |
| **June to July** | $1.601655 billion and the remaining balance of the June apportionment. The combined total has been $2.5 billion in prior years. | $1.601655 billion and the remaining balance of the June apportionment. The combined total has been $2.5 billion in prior years. |
| **Deferred across fiscal** | $7.4 billion ($5.8 billion with the $1.590449 billion buy- | $5.6 billion |

| | | |
|---|---|---|
| **years** | down from the 2013-14 State Budget Act) | |
| **May to July (formerly categorical deferrals)** | | $200 million |
| **June to July (formerly categorical deferrals)** | | $699.473 million |

Our office recommends the following next steps for school districts:

- Revise 2013-14 and 2014-15 cash flow projections to reflect the appropriate cross fiscal year deferral reductions.
    - 38% of the April P-1 apportionment will be deferred to July.
    - 97% of the May P-1 apportionment will be deferred to July.
    - 100% of the June P-2 apportionment will be deferred to July.
- Update cash flow projections to reflect EPA in 2013-14 and 2014-15.
- Evaluate cash flow projections as soon as possible and develop a plan of action to address cash shortfalls. Options include:
    - Temporary interfund borrowing (Education Code Section 42603).
    - Cross fiscal year tax revenue anticipation notes (TRANs).
    - A temporary transfer from the county treasurer (Education Code Section 42620).

# Categoricals / Regulated Programs

The enacted State Budget eliminates most state categorical program funding, except for a few programs funded outside the LCFF. See Appendix A for a list of the programs folded into the LCFF.

The main budget bill, AB 110, maintains funding and program requirements for the following categorical programs (Regulated Programs):

| Resource | Program Name |
|---|---|
| 6013 | Adults in Correctional Facilities |
| 6010 | After School Education & Safety Program |
| 7010 | Agricultural Vocational Education |
| 7015 | American Indian Education Centers |
| 0000 | Assessments |
| 0000 | Early Childhood Education Program |
| 7365 | Foster Youth Services Programs |
| 7220 | Partnership Academies |
| 7400 | Quality Education Investment Act |
| 6500, 6510 | Special Education |
| 7370 | Specialized Secondary Programs |
| 6055 | State Preschool |

The budget eliminates funding and program requirements for all other state categorical programs and redirects funds to the Supplemental and Concentration Grant portions of the LCFF.

Programs categorized as Tier III under SBX3 that have been flexed since 2008-09 are eliminated and combined into the base in calculating the LCFF. Tier III public hearings as required under SBX3 are no longer required beginning in 2013-14.

**Williams Act:** Funding is absorbed by the LCFF but the requirements are still in place. It is expected that LCFF funds will be used to meet the requirements.

**Deferred Maintenance:** Education Code Section 17582 is amended. While funding for deferred maintenance is part of the base in the LCFF, the responsibility for maintaining district facilities becomes part of a district's Local Control Accountability Plan (LCAP). Williams Act facility requirements continue.

**Economic Impact Aid (EIA) Funding:** EIA is now one of the categorical programs included in the LCFF formula. Currently the requirement to post expenditure data to the LEA's website under Education Code 54029 is still in effect. Districts should continue to post expenditures until cleanup language is completed. Carryover funds from EIA entitlements for 2012-13 and any previous fiscal years are still subject to the former EIA restrictions.

**Forest Reserve:** On October 2, 2013 the President signed H.R. 527, the Helium Stewardship Act of 2013. It includes a one year authorization of Forest Reserve funding (with a 5% ramp down). While steps are being taken for a long-term reauthorization of Forest Reserve, funding beyond the one-year authorization is uncertain and should not be included in district budgets.

**Lottery**: Lottery funding is calculated in the same manner as prior years. The CDE estimates that the lottery will provide $157 per ADA ($126 per ADA in unrestricted lottery revenues and $31 per ADA in Proposition 20 revenues) for 2013-14.

**Mandated Costs:** The adopted budget increases the Mandate Block Grant (MBG) allocation by $50 million, and the funds will be distributed to districts with high schools for graduation requirements. The budget suspends a variety of other mandates outside the MBG. Districts opting to accept the MBG will receive $28 per ADA for grades K-8, and $56 per ADA for grades 9-12. Charter schools will receive $14 per ADA for grades K-8, and $42 per ADA for grades 9-12. COEs will receive the same rates of reimbursement as districts, plus $1 per unit of countywide ADA. LEAs that do not opt to receive funding through the MBG will need to continue to collect data and submit for reimbursement. However, the budget does not include funding for mandated cost claims.

**Routine Restricted Maintenance:** The permanent repeal of the RRM 3% contribution requirement that was in the May Revision did not make it into the final budget. Consequently, LEAs continue to have flexibility to reduce the contribution to 1% (or 0% if in compliance with Williams) through 2014-15, and then the 3% requirement returns. The requirements under the Williams Act remain. Districts should review their routine maintenance needs and ensure that Williams Act requirements are met and that students are housed in facilities that are safe, clean and in good repair.

**Regional Programs:** Because the LCFF permanently eliminates a wide range of regional programs as separate identified funding streams, districts receiving regionalized services or funding through another LEA should be aware that the regional provider may not be able to sustain these services indefinitely without district contributions. Examples of programs that are often operated regionally include ROC/P, BTSA, and CTAP, among others. All former Tier III regional programs may be diminished over time by rising costs and competing priorities under the LCFF's flexibility.

# Child Care

The 2013-14 budget does not include funding for cost of living adjustments (COLA) for child development programs. Fees still must be assessed and collected for families with children in part-day preschool programs, families receiving wraparound child care services, or both; fees cannot exceed 10% of the family's total income.

The budget includes:

- Total base cost for stage 2 of $357.8 million.
- Total base cost for stage 3 of $197.5 million.
- $10 million to serve an additional 3,300 full-day children in general child care programs, alternative payment programs, and migrant child care.
- An additional $25 million of Proposition 98 funding to expand slots in the State Preschool program and to begin to restore the reductions sustained by the program over the last several years.
- An additional $1.2 million of Proposition 98 funding for growth.

The Governor's realignment proposal for implementation of the Affordable Care Act now states that over time, counties would assume greater responsibility for CalWORKs, CalWORKs-related child care programs and CalFresh (formerly Food Stamps) administration costs.

# Common Core Implementation Grant

To support the implementation of the Common Core State Standards, apportionments were made from funds provided in Assembly Bill (AB) 86, Section 85. Apportionment letters were issued August 23, 2013.

School districts, county offices of education, charter schools, and state special schools receiving these funds may encumber the funds any time during the 2013-14 or 2014-15 fiscal years. LEAs shall expend funds for any of the following purposes:

- Professional development for teachers, administrators, and paraprofessional educators or other classified employees involved in the direct instruction of pupils that is aligned to the academic content standards adopted pursuant to Sections 60605.8, 60605.11, 60605.85, and 60811.3 of the Education Code.
- Instructional materials aligned to the academic content standards referenced above.
- Integration of the academic content standards through technology-based instruction for purposes of improving the academic performance of pupils, including, but not limited to, expenditures necessary to support the administration of computer-based assessments and provide high-speed, high-bandwidth Internet connectivity for administering computer-based assessments.

As a condition of receiving these funds, the LEA must develop and adopt a plan delineating how funds shall be spent. The plan shall be explained in a public meeting of the LEA's governing board before its adoption in a subsequent public meeting and can be as simple as stating that the funds will be spent on the categories allowed (see above). Even if the details of a district's common core implementation needs are unknown at this time, districts are encouraged to move forward with board adoption of a high level plan per the broad categories above to ensure compliance with the plan requirement. Detailed expenditure information is due to the CDE at the end of fiscal year 2014-15. The method for this report has yet to be determined.

Per AB 86, CDE is allocating per-pupil funding based on prior-year enrollment data. The per-pupil award amount is estimated at $200 per pupil using CALPADS fall enrollment data as of October 2012 that was certified on or before May 24, 2013. Adjustments will be made at second apportionment in October 2013.

These funds should be accounted for using Resource Code 7405 and Revenue Object Code 8590. Expenditure of funds will be subject to the annual audit required by EC 41020. Indirect costs are allowed at the LEA approved rate.

Below are links for additional information:

SACS Query profile:

http://www2.cde.ca.gov/sacsquery/pcadetail.asp?pca=25230&resourcecode=7405

Funding Letter:

http://www.cde.ca.gov/fg/fo/r14/commoncore13apptltr1.asp

Funding Profile:

http://www.cde.ca.gov/fg/fo/profile.asp?id=3434

Funding Results:

http://www.cde.ca.gov/fg/fo/r14/commoncore13result.asp

Frequently Asked Questions:

http://www.cde.ca.gov/fg/aa/ca/commoncorefaq.asp

# Education Protection Account

The Education Protection Account (EPA) provides local educational agencies (LEAs) with general purpose state aid funding pursuant to Proposition 30, the Schools and Local Public Safety Protection Act of 2012, approved by the voters on November 6, 2012. These temporary taxes are set to expire as follows:

- 2016, additional ¼ cent sales tax expires.
- 2018, increase to personal income tax for high income earners expires

The California Department of Education posts information and frequently asked questions on the EPA. The Education Protection Account (EPA) Web page provides information on LEAs' EPA entitlements, the resulting impact to state funding, and FAQs.

The language in the constitutional amendment requires that funds shall not be used for the salaries and benefits of administrators or any other administrative costs. LEA boards must make annual spending determinations in an open session at a public meeting. Districts are also required to annually post on their website an accounting of how much money was received from EPA and how that money was spent.

The EPA funding is a component of an LEA's total revenue limit or charter school general purpose entitlement. EPA entitlements will continue to be calculated on revenue limit entitlements even under the 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.

The LCFF Calculator will generate estimated EPA revenue for budgeting purposes.

# Federal Sequestration

Although Congress voted to reopen the government and raise the debt ceiling after 16 days of a government shutdown and one day before the United States ran out of borrowing authority, federal funding for education for federal fiscal year 2014 is still very uncertain. As of this date, the House and Senate Appropriations Committees' respective budget proposals for Labor, Health and Human Services, and Education are dramatically different, with the House drastically reducing the total funding available to fund all programs in those departments, including major education programs such as IDEA and Title I. The House cuts the Labor, Health and Human Services and Education, and Education Subcommittee allocation by 18.7 % while the Senate Subcommittee provides $42 billion more to fund programs at these agencies. The Senate also does not assume sequestration in fiscal year 2014.

The drastic differences between the House and Senate will have to be resolved later this year. The decisions made will determine whether or not federal education funding for programs such as IDEA and Title I will be reduced in fiscal year 2014 and subjected to additional sequestration cuts as well. As decisions are made about appropriations for 2014, action by Congress and the Administration will be necessary to change the annual sequestration requirements of the Budget Control Act. Sequestration will still be in effect

in fiscal year 2014 without specific congressional action to amend the Budget Control Act.

For 2013-14 budget development and multiyear planning, it is recommended that local educational agencies assume a 5.2% reduction in all federal education programs (child nutrition is exempt) for the 2013-14 school year budget. For subsequent fiscal years, it would be prudent to plan for additional reductions in federal funding until Congress resolves the federal deficit issues that led to sequestration. While the precise magnitude of potential subsequent year cuts is unknown at this time, if Congress takes no action and current law remains in place, OMB projected an "8.2 percent reduction in non-exempt nondefense discretionary funding."

# Instructional Days

Education Code 46201.2 authorized school districts, county offices of education and charter schools to reduce up to five days of instruction or the equivalent number of instructional minutes without incurring penalties or reduction in the longer day/year incentive funding for the 2009-10 through 2014-15 school years. The adopted budget continues to provide all school districts, county offices of education and charter schools with school year reduction flexibility through 2014-15.

Education Code 46207 has been amended to provide the withholding of LCFF apportionment from school districts offering less than the minimum educational minutes by grade span beginning with 2015-16. Education Code 46208 has been added, requiring districts whose funding equals or exceeds their LCFF target to offer 180 days or more of instruction beginning with 2015-16.

Because of the sunset of Education Code 46201.2 flexibility along with the new provisions above, all basic aid districts, and any district or county office of education participating in the longer day/year incentive program, will need to plan to restore the 180-day school year and the annual instructional minutes requirement in the 2015-16 fiscal year.

The instructional days requirement for charter schools remains at 175 days. A school operating as a multitrack year-round school is in compliance with the 180-day requirement if it certifies to the Superintendent of Public Instruction that it is a multitrack year-round school and maintains its school for a minimum of 163 school days.

Education Code 46208 has been added to include instructional day regulations for school districts, county offices and charter schools not participating in the longer day/year incentive program. Once a school district, county office or charter school equals or exceeds its LCFF target, as a condition of apportionment it shall offer 180 days or more of instruction per school year. This provision affects 13 school districts and 18 county offices. The CDE list of school districts and county offices can be found at http://www.cde.ca.gov/fg/au/ag/nolongdyr04.asp.

# Interest Yield Projections

The Orange County Treasurer-Tax Collector has forecasted a gross yield for fiscal year 2013-14 of 0.37% based on continued low short-term interest rates.

# Medi-Cal Administrative Activities

As a condition of participating in School-Based Medi-Cal Administrative Activities (SMAA), LEAs are subject to review by the federal oversight agency, the Centers for Medicare and Medicaid Services (CMS). In November 2011, the CMS notified the California Department of Health Care Services (DHCS) of the plan to review school MAA claiming units in California. Three LEAs were chosen and reviewed in spring 2012. The process included a review of the claims and interviews of claiming participants. In April 2013, the CMS released its draft report that found some of the reviewed claims to be out of compliance with federal regulations, guidelines and standards. The CMS determined that the LEA survey results were not reasonable or allocable to Medicaid. The DHCS has submitted a response to the draft report.

Based on these reviews and the review of additional source documentation provided by the DHCS, the CMS notified the DHCS that pending SMAA claims were to be deferred until additional documentation and clarification could be obtained. In addition, California's SMAA plan did not comply with the requirements detailed in the OMB Circular A-87. The DHCS requested approval for an interim plan for 2012-13 to ensure that LEAs could continue to claim and receive reimbursements. A one-year interim claiming process was approved by the CMS, and the DHCS began releasing the instructions for deferral documentation and certification.

In September 2013, the DHCS and the CMS agreed on an approach to release invoices from the deferral, and the DHCS submitted a draft to the CMS for approval. Once approval is obtained, the DHCS will provide instructions to local education consortiums and local government agencies to begin processing the deferred invoices.

In addition, the CMS has indicated it will approve interim claiming for fiscal year 2013-14, provided the DHCS submits a plan to release the deferred invoices and agrees to revise the SMAA statewide claiming plan for implementation in July 2014.

The DHCS has established a website (http://www.dhcs.ca.gov/provgovpart/Pages/SMAAWhatsNew.aspx) to assist in its communication with LEAs regarding the SMAA program. In addition to its SMAA webpage, the DHCS has established an electronic SMAA mailbox that allows the public to directly submit questions and/or concerns regarding SMAA issues. DHCS staff monitor and respond to the inquiries.

The DHCS acknowledges that sufficient information has not been shared with the general public regarding updates to the SMAA program or the progress in securing approval for a new claiming methodology for the SMAA program. To alleviate this concern the DHCS has launched a program fact sheet on its website that is available to the public. The fact sheet will be updated frequently with the latest developments pertaining to the deferral process and statewide claiming plan.

At this time there is no projected date that all LEAs will be released from the deferral process, and LEAs should budget MAA reimbursements on a cash basis until further notification from their local education consortium or local government agency.

# Negotiations

School districts are accustomed to uncertainty, especially over the past five-plus years. However, the LCFF adds a new type of uncertainty. While the state is providing additional revenue for the first time in many years, its distribution is vastly different than it was under revenue limit funding. This, coupled with an uneven economic recovery, creates an environment of caution for school districts considering a multi-year contract.

We encourage districts to exercise caution and maintain flexibility through contingency language that protects the district from cost increases and/or revenue shortfalls beyond their control. These factors include but are not necessarily limited to the following:

## *Factors Beyond District Control*

- **Future Funding of the LCFF**
  - Current estimates for gap percentage funding are dependent on projected increases in state revenue growth. The state's economy is in the early stages of a recovery period. The extent of this recovery is estimated based on factors known today. These factors will likely change.
- **LCFF Accountability Regulations (EC 42238.07)**
  - No later than January 31, 2014, the SBE must adopt regulations governing the expenditure of supplemental and concentration grant funds. The LCFF states that the SBE regulations must require an LEA "to increase or improve services for unduplicated pupils in proportion to its increase in funds apportioned on the basis of the number and concentration of unduplicated pupils."
  - The LCFF legislation also authorizes LEAs to use funds apportioned on the basis of the number of unduplicated pupils for schoolwide purposes in a manner that is no more restrictive than provided for in

Title I of the federal No Child Left Behind Act of 2001 (20 U.S.C. Sec. 6301, et seq.).

- While these regulations are pending, LEAs will need to exercise caution and discretion in committing supplemental and concentration grant funds.

- **Health Care Reform Costs**

- Health care reform may create unanticipated employer costs beyond the scope of bargaining. For this reason, districts are encouraged to exercise caution in bargaining ongoing commitments for health care benefits.

- **Retirement Employer Contribution Rates (please refer to the Retirement section)**

- CalPERS rates are set by the CalPERS Board and are expected to increase, and LEAs are no longer protected by the 13.02% cap that existed under PERS reduction.

- CalSTRS rates are set legislatively. Multiple options are being considered for raising rates.

Also, LEAs should consider that EPA funding through Proposition 30 yields temporary increases to state revenues through 2018-19. The sales tax portion of Proposition 30 expires at the end of 2016 and the income tax increase expires in 2018.

# Property Taxes

The Orange County Assessor's 2013-14 Local Assessment Roll of Values indicates that roll values have increased countywide by 3.36% or $14.3 billion. Statewide, the Proposition 13 Consumer Price Index (CPI) increase is 2.0% for all properties that have a market value greater than the Proposition 13 taxable value on January 1, 2013.

At this time, school districts may refer to the County of Orange Auditor-Controller's tax ledger http://tax.ocgov.com/acledger/index_eGov.asp to find initial tax levies for secured and unsecured property taxes. The initial tax levies can be compared to prior year initial tax levies and prior year actual taxes received to identify trends in property taxes. The Auditor-Controller's office will be providing the 2013-14 P-1 property tax estimates to our office by November 15, 2013. For budgetary purposes, we recommend that you either wait for the 2013-14 P-1 property tax estimates or refer to the Auditor-Controller's tax ledger and perform some trend analysis to estimate 2013-14 secured and unsecured property taxes.

For the community redevelopment funds that are considered local property taxes, we recommend that school districts continue to budget for pass-through and residual apportionments. Please do not budget for any of the one-time community redevelopment revenues received in 2012-13 related to low and moderate income housing funds (LMIHF) or other funds and accounts (OFA). The LMIHF and OFA were one-time funds related to former redevelopment agencies asset liquidation.

For Education Revenue Augmentation Fund (ERAF), please continue to budget at 2011-12 levels and assume negative ERAF cash apportionments in December 2013 and April 2014.

# Proposition 39

SB 73 (Chapter 29/Statutes 2013) is the implementation bill for Proposition 39, the California Clean Energy Jobs Act. Proposition 39 provides for the creation of clean energy jobs, including funding energy efficiency projects and renewable energy installations in public schools, universities, and other public facilities.

For five fiscal years, 2013-14 through 2017-18, funds will be provided for K-14 schools. In 2013-14 the total funding is projected to be $428 million. K-12 education (school districts, charter schools, and county offices of education) will be allocated $381 million of the total, with LEA distributions based 85% on a per-ADA allocation (second principal apportionment of prior year) and 15% on the basis of free and reduced price meal-eligible students (prior year). The CDE has posted 2013-14 entitlement amounts, but specifies that these amounts are subject to revision. They are available at: http://www.cde.ca.gov/fg/fo/r14/prop39cceja13result.asp

Minimum grants will be $15,000 for LEAs with 100 or less ADA, $50,000 for LEAs with more than 100 to 1,000 ADA, and $100,000 for LEAs with more than 1,000 but less than 2,000 ADA. In addition, LEAs with 1,000 or less ADA may receive advances on future allocations, allowing them to bundle two years of funding.

LEAs that receive more than $1 million must spend at least 50% of the funding on projects larger than $250,000 that achieve substantial energy efficiency, clean energy and jobs benefits.

LEAs are expected to provide specific data to the Energy Commission including but not limited to an Energy Expenditure Plan with specific required elements, access to all utility data for the past 12 months, benchmarking data, cost efficiency analysis, and ongoing analysis.

Allowable uses of Proposition 39 funds include:

- Energy planning activities occurring on or after July 1, 2013.

- Training costs up to 2% of the award or $1,000 for training of classified school employees.

- The hiring or retaining of an energy manager with a maximum cost of 10% of the award or $100,000 each year.

The California Energy Commission (CEC) released draft guidelines in October 2013 that outline an eight-step process for participating in the Proposition 39 program. These guidelines are available at: http://www.energy.ca.gov/2013publications/CEC-400-2013-010/CEC-400-2013-010-D-REV2.pdf The CEC has hosted a series of meetings to gather input on the draft guidelines.

LEAs should not commit the anticipated funds until the final guidelines are released. Some of the requirements and the processes reflected in the draft guidelines may be revised prior to finalization.

The following websites contain additional information regarding the funding:

CDE: http:www.cde.ca.gov/fg/aa/ca/prop39cceja.asp

California Energy Commission:
http://www.energy.ca.gov/efficiency/proposition39/faq.html

# Redevelopment Agencies

AB 1484 prescribed the time frame during which the RDA pass-through payments will cease to be made to local governments by successor agencies that have assumed the responsibilities and obligations of former RDAs, including previously determined financial obligations. Specifically, AB 1484 added subdivision (b) of Section 34187 of the Health and Safety Code, which states:

> "(b) When all the debt of a redevelopment agency has been retired or paid off, the successor agency shall dispose of all remaining assets and terminate its existence within one year of the final debt payment. **When the successor agency is terminated, all pass-through payment obligations shall cease** (emphasis added) and no property tax shall be allocated to the Redevelopment Property Tax Trust Fund for that agency."

Districts should stay current with the status of debt payments and other recognized obligations of any former RDA from which they receive payments and, if warranted, begin planning for the early termination of those payments. More specifically, districts need to track when the recognized obligations will end by project area within a former RDA, as the pass-through payments associated with a particular project area will end when the associated obligations are retired, even if other projects continue to have outstanding obligations. Any district utilizing pass-through payments for debt service

should pay particular attention to the estimated life of the applicable projects and develop contingency plans to service debt as warranted.

# Reserves

There are multiple benefits to carrying higher than minimum reserves. These reasons include volatility of state revenues, cash management, deferral management, declining enrollment, dependency on parcel taxes, basic aid dependency on property taxes and basic aid districts that are close to losing their basic aid status. This is in no way an exhaustive list.

Of all the reasons for carrying higher than minimum reserves, however, state revenue volatility is one of the most compelling. This is especially true during LCFF implementation because gap percentage funding is directly tied to the state's ongoing ability to fund the LCFF through Proposition 98 growth. Most importantly, by providing a buffer from volatile state revenues, higher than minimum reserves creates a more stable educational environment for students.

The revised 2009-10 enacted budget lowered the minimum reserve requirement levels for economic uncertainties to one-third the percentage level adopted by the State Board of Education as of May 1, 2009. SB 70 extended this provision for both 2010-11 and 2011-12. However, school districts were required to make progress in the 2012-13 fiscal year to return to compliance with the specified standards and criteria adopted by the State Board of Education. By the end of the current fiscal year, 2013-14, school districts must meet compliance and restore the reserves to the percentage adopted by the State Board of Education prior to May 1, 2009.

# Retirement

Pension reform has been taking shape over the past year. LEAs will need to closely follow the changes to retirement law and the associated costs that will impact multiyear projections. A summary of PERS and STRS pension reform changes and how they may impact LEA budgets follows.

## *CalPERS*

On April 17, 2013 the CalPERS board adopted an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a five-year period. The new amortization and smoothing policy will be used for the first time in the June 30, 2013 actuarial valuations. These valuations will be performed in fall 2014 and will set employer contribution rates for the fiscal year 2015-16.

The PERS employer contribution rate for 2013-14 is 11.442% as approved on June 18, 2013.

Expected rate increases due to the new amortization and smoothing policy can be estimated based on the asset volatility ratio (AVR) of the pool. PERS estimates that for 2015-16, the contribution rate will be 13.30%. With an AVR of 4.6, schools can anticipate approximately 1.1% increase to the contribution rates annually.

With implementation of the LCFF, PERS revenue limit reduction (object 38xx) has been eliminated, as well as PERS reduction transfer (object 8092). Payroll systems should have been updated to reflect 0% for PERS revenue limit reduction as of July 1, 2013. Without a statutory cap on PERS contributions, an LEA's exposure to the increasing contribution rates is not limited. Additional employer contributions should be anticipated in creating multiyear projections.

## *CalSTRS*

On February 8, 2013, CalSTRS presented a draft report to reflect possibilities to strengthen the funded status of the defined benefit program. If not redefined, the program will deplete all of its assets in approximately 30 years. Many options are presented in the report, each of which utilize a blended approach of increasing member, employer and state contributions. Some of the proposals in the draft include changes to employer (LEA) contributions as early as 2014-15.

The budget does not address additional state contributions to the unfunded CalSTRS liability. This could mean even higher LEA contributions or adjustments to other state budgetary items that could potentially offset revenues that may have otherwise benefited the LEA.

Districts need to exercise caution in preparing multiyear projections due to pension reform uncertainty and the potential for increased costs for both STRS and PERS employer benefit contributions in the coming years.

## *AB 1381 and CalSTRS*

On October 4, 2013, Governor Brown signed AB 1381 into law. This bill makes various technical corrections and conforming changes that align the Teachers' Retirement Law (TRL) with the provisions of PEPRA (Public Employees' Pension Reform Act of 2013). Some highlights of AB 1381 include:

- Defines PEPRA in the TRL using legal citations.
- Defines public employee in the TRL for both Defined Benefit (DB) program and the Cash Balance (CB) Benefit program by referencing the definition of public employer in PEPRA.
- Defines a "member" and "participant" subject to PEPRA employed to perform creditable service as a person who first becomes employed on or after January 1, 2013.

- Makes several changes to provisions governing age factors and normal retirement ages.
- Excludes 2% at 62 members from one-year final compensation based on having 25 or more years of service credit or based on a collective bargaining agreement. Ends this benefit for 2% at 60 members for contracts entered into, extended, renewed or amended on or after January 1, 2014.
- Makes various changes to provisions governing the limits on amount and types of compensation.
- Prohibits 2% at 62 members from receiving any benefits from CalSTRS in excess of the federal limit by excluding them from the Replacement Benefits Program.
- Adds clarification that 2% at 62 members are excluded from receiving employer-paid member contributions unless a labor agreement would be impaired, as specified, and ends employer-paid member contributions for 2% at 60 members for labor agreements entered into, extended or renewed on or after January 2014.
- Requires the Teachers' Retirement Board to adopt the normal cost rate that is used to determine the 2% at 62 member contribution rate and excludes that contribution rate from the collective bargaining process since CalSTRS member contribution rates are set in statute and have never been subject to collective bargaining.
- Restricts the purchase of nonqualified service in the TRL.
- Makes various changes to provisions governing postretirement employment.

For more information regarding the technical changes in age factors, retirement ages, compensation and postretirement employment, please refer to the bill language in AB 1381.

# Special Education

Special education will be funded outside the LCFF, with funding for ADA growth and a 1.57% COLA. The statewide target rate will be completely recomputed for the first time since the AB 602 funding formula was implemented in the 1998-99 school year.

- Based on this new recomputed rate, SELPAs with growth are expected to receive an estimated $502.25 per ADA and an estimated COLA of $7.86 per ADA.

The enacted budget changes the AB 602 funding formula by allocating federal local assistance funds outside the formula. This is intended to streamline the calculation and correct inequities in the funding that SELPAs receive for growth ADA versus the amount they are penalized when they decline.

In addition, the budget rolls $92.7 million of regionalized services and program specialist service funds and $2.5 million in personnel development funds into the AB 602 base.

School districts continue to be responsible for mental health services to disabled students. A total of $423 million is provided to support mental health services. Of that amount, $69 million comes from federal funds and the remainder comes from Proposition 98 funding. The mental health funding formula for the distribution of the $423 million will be allocated on a per-ADA basis to the SELPAs.

The past claims for Behavioral Intervention Plans (BIP) are not mentioned or funded in the budget. The BIP mandate for the future appears to be scaled back in the language, and there are no mandate funds owed going forward. This is being challenged by the California School Boards Association.

## *Behavioral Intervention Plans (BIP) Cost Claims*

On April 19, 2013, the Commission on State Mandates adopted parameters and guidelines for the BIP/Hughes Bill mandated cost claim. The Commission adopted standardized reimbursement rates per ADA for claims in 1993-94 through 2011-12, but required claimants to file claims based on actual costs commencing in 2012-13. The standardized reimbursement rates are $ .32818 for SELPA one-time start-up costs, likely incurred in 1993-94, and $1.18702 for SELPA ongoing costs. The district and COE ongoing cost rate is $9.45701. These figures are based on 2006-07 numbers.

The State Controller's Office issued claiming instructions based on these figures. The claiming instructions include a table showing the applicable standardized rate for each year, calculated to take into account inflation or deflation based on the 2006-07 figure. Claims for the period 1993-94 to 2011-12 are required to be filed with the State Controller by November 21, 2013. Claims based on actual costs for the 2012-13 year must be filed by February 18, 2014.

Filing a claim does not mean a district will actually receive cash because funds were not appropriated for this purpose in the budget. Actual reimbursement will be contingent on future action by the Legislature and the Governor.

The likelihood of recovery, especially when balanced against the effort, depends on the year; <u>1993-94 through 2009-10 are the simplest years for which a claim can be made based on the standardized reimbursement rate.</u>

For years 2010-11 and beyond, recovery of costs is questionable due to AB 1610. If AB 1610 is overcome in court, recovery is only possible to the extent of encroachment and funds being authorized by the Legislature. Furthermore, AB 86, effective July 1, 2013, eliminated BIP requirements except for behavioral emergencies for claim year 2013-14 and beyond.

Each agency will have to determine if filing is worth the effort depending on the possible size of recovery, the outcome of the challenge to AB 1601, the limits of behavioral emergencies, and the funding from the Legislature. Districts should work with their SELPA and legal advisors on the filing decisions that will be best for their circumstances.

# Situational Guidance to Districts and Multi-Year Projections

The LCFF will uniquely impact each district and, consequently, budget guidance must be situational. Our office will be contacting each school district's chief business official to discuss situational guidance for the First Interim Report.

There are several calculations that determine the amount a district will receive in a given year under the new LCFF. The core components of this formula are the calculation of each district's Floor, Minimum State Aid (commonly referred to as "hold harmless"), LCFF Target, and Economic Recovery Target (ERT), if eligible. Each calculation is separate and distinct and contributes to the determination of funding for each district. Some districts will receive no additional funding, while others may receive a significant down payment toward their LCFF targets.

As districts incorporate LCFF implementation funding into their MYPs, each district will have a unique set of financial risk factors. These risk factors are critically important in determining reserve levels and contingency planning. Best practices for assessing district risk factors begin with using the Fiscal Crisis and Management Assistance Team's (FCMAT's) Key Fiscal Indicators (Appendix B).

One tool for calculating variable risk factors is the LCFF Calculator, located on the FCMAT website. This calculator provides input fields for modeling variable factors. These variable input fields include ADA, unduplicated percentages, gap percentages and COLA percentages, allowing districts to create multiple models when building MYPs. These models will assist in planning and assessing risk levels. Further, each model will produce its own unique revenue percentage increases.

### *Assessing State Risk Factors Under LCFF:*

- State revenues are based on a ***projected*** state revenue growth as forecast by the Department of Finance (DOF).
- State revenues are dependent on variable revenue sources, such as personal income tax.
- LCFF year-over-year increases are dependent on annual general fund revenue growth as allocated through the annual state budget process.
- Proposition 30 revenues are temporary.
  - In 2016 the additional ¼ cent sales tax expires.
    - Estimated to generate approximately 20% of Proposition 30's temporary taxes.

- In 2018 the increase to personal income tax for high income earners expires.
    - Estimated to generate approximately 80% of Proposition 30's temporary taxes.

### *The Shift from Revenue Limit to LCFF*

Historically, projected COLAs and deficits have been the standard for building multi-year projections. The application and significance of COLAs under the LCFF takes on new meaning.

- Under revenue limits, year-to-year funding changes have been the result of ADA growth or decline and funded COLAs.
- During implementation of the LCFF, year-to-year funding changes will be the result of ADA growth or decline, COLAs, and unduplicated EL, Free and Reduced and Foster Youth counts, and the percentage of implementation (gap) funding.
- Upon full implementation of the LCFF, year-to-year funding changes will be the result of ADA growth or decline, COLAs, and unduplicated EL, Free and Reduced and Foster Youth counts.

Further underscoring the need for situational guidance is the fact that growth funding for districts will also vary in the percentages of growth coming from base grant versus supplemental and concentration grant increases. The percentage increase in funding that any particular district receives will vary based on the factors described above.

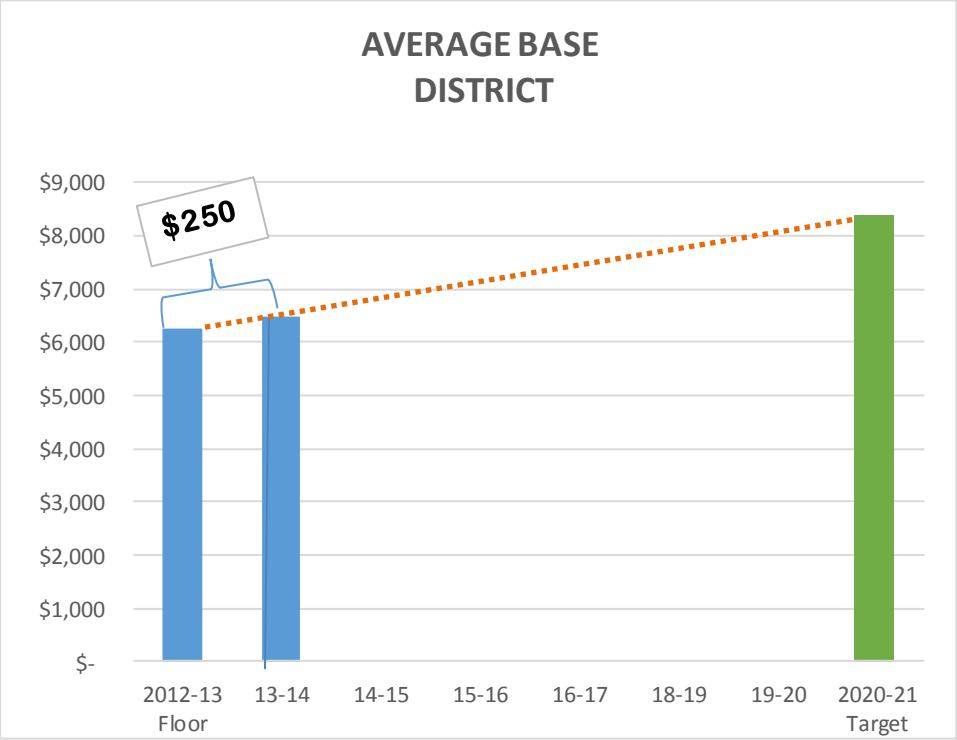
## *Multi-Year Projections*

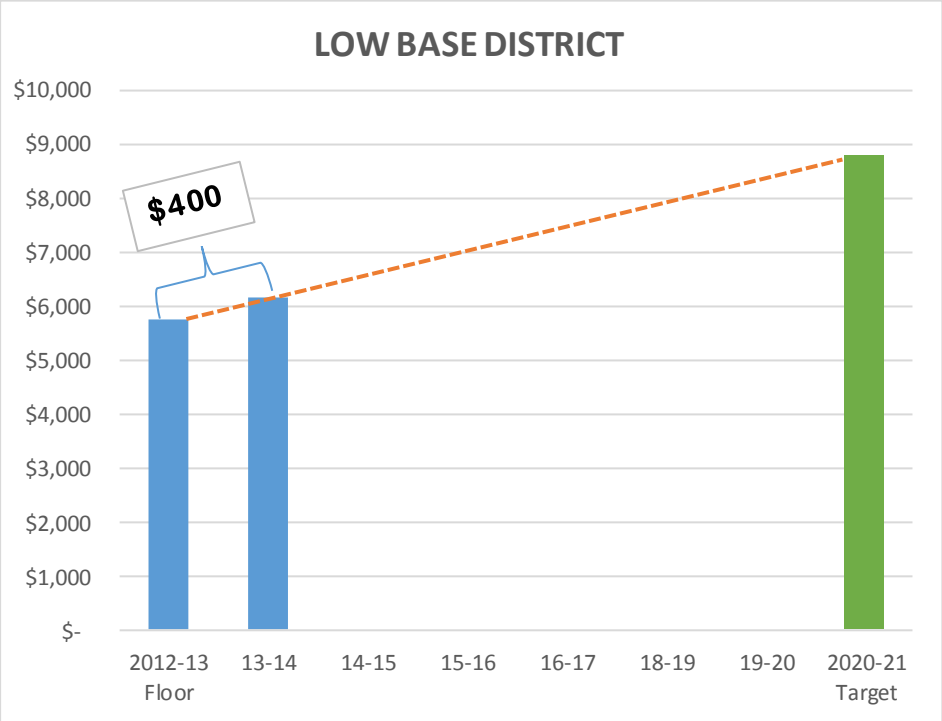
On July 18, the Department of Finance (DOF) updated its estimates for LCFF gap funding for 2013-14, 2014-15 and 2015-16.

| **Year** | **2013-14** | **2014-15** | **2015-16** |
|---|---|---|---|
| Gap Funding | 11.78% | 16.49% | 18.69% |

The 2013-14 Enacted State Budget provides each district and charter school with increased funding equal to approximately 11.78% of the difference between their current Floor funding level and their LCFF Target in 2013-14. The percentages provided in the table above are based on the economic forecasts provided by the DOF as of the enacted budget. These percentages are derived from projected growth in Proposition 98 funding as directed toward funding the LCFF until full implementation. According to the DOF, Proposition 98 growth is projected to provide increased LCFF funding equal to 16.49% of the remaining difference (gap) in 2014-15 and 18.69% in 2015-16.

Due to the influence of factors beyond ADA and COLA, each LEA's funding includes additional factors unique to itself. The following graphic demonstrates the unique application of the LCFF using two districts with identical ADA, differing unduplicated percentages and different Floor funding levels or starting point on a per-ADA basis.



Thorough risk analysis includes an assessment of each district's ability to absorb changes in out-year funding estimates as projected by the DOF's gap percentages. This assessment includes reserve levels, status of negotiations, growth or decline in enrollment and a full risk assessment using FCMAT's Key Fiscal Indicators. (Appendix B).

# Summary

Since the 2008-09 school year, there have been unprecedented funding reductions to California's public schools. Now schools are faced with the promise of funding increases for the first time in many years, coupled with a new type of uncertainty in the form of the LCFF. We encourage school districts to maintain best fiscal practices and be proactive in preserving fiscal solvency by developing plans that allow maximum flexibility.

# Appendices

***Appendix A – List of Programs Folded into the LCFF***

***Appendix B – FCMAT Indicators***

***Appendix C – Delayed Principal Apportionment Funding***

***Appendix D – LCFF Acronyms***

***Appendix E – How Certified CALPADS Data are Used and Consequences***

## *Appendix A – List of Programs Folded into the LCFF*

| Program | 2012-13 Budget Act Reference | 2012-13 PCA Reference |
|---|---|---|
| Remedial Program (Supplemental Instruction) | 6110-104-0001(1) | 23807 |
| Retained and Recommended for Retention (Supplemental Instruction | 6110-104-0001(2) | 23834 |
| Low STAR Score and at Risk of Retention (Supplemental Instruction) | 6110-104-0001(3) | 24228 |
| Core Academic Program (Supplemental Instruction) | 6110-104-0001(4) | 23740 |
| Regional Occupational Centers/Programs | 6110-105-0001(1) | 23707 |
| COE Fiscal Oversight | 6110-107-0001(1) | 23633 |
| Middle & High SchoolCounseling | 6110-108-0001 | 24805 |
| Pupil Transportation Home-to-School & Severely Disabled/Orthopedically Impaired | 6110-111-0001(1) | 23366 |
| Small District/COE Bus Replacement | 6110-111-0001(2) | 23123 |
| Gifted and Talented Education | 6110-124-0001 | 23856 |
| Economic Impact Aid (EIA) | 6110-128-0001 | 23654 |
| Math & Reading ProfessionalDevelopment | 6110-137-0001 | 24389 |
| Math & Reading ProfessionalDevelopmentEnglish Learners | 6110-137-0001 (Prov.3) | 24854 |
| AdministratorTraining Program | 6110-144-0001 | 24390 |
| Adult Education | 6110-156-0001(1) | 23616 |
| EducationTechnology CTAP | 6110-181-0001 | 23975 |
| EducationTechnology SETS | 6110-181-0001 | 24194 |
| Deferred Maintenance | 6110-188-0001 | |
| Instructional Materials Fund Realignment Program | 6110-189-0001 | 24418 |
| Community Day School Additional Funding | 6110-190-0001 | 23141 |
| BilingualTeacher Training | 6110-193-0001(1) | 23786 |
| Peer Assistance & Review | 6110-193-0001(2) | 24034 |
| Reader Services for Blind Teachers | 6110-193-0001(3) | 23438 |
| National Board Certification | 6110-195-0001 | 24042 |
| California School Age Families Education(Cal-SAFE) | 6110-198-0001(1),(2),(3) | 24000/24001/24054 |
| CaliforniaHigh SchoolExit ExamIntensiveInstruction | 6110-204-0001 | 24732 |
| Center for Civic Education | 6110-208-0001 | 24122 |
| PENDINGTeacher Dismissal Apportionments (SCO) * | 6110-209-0001 | |
| Charter School Categorical Block Grant | 6110-211-0001(1) | 23721 |
| Charter School In-Lieu of EIA | 6110-211-0001(2) | 24994 |
| New Charter Supplemental Categorical Block Grant | 6110-212-0001 | 25154 |
| CommunityBasedEnglishTutoring | 6110-227-0001 | 24918 |
| School Safety Block Grant(Districts) | 6110-228-0001 | 23718 |
| School Safety Block Grant(Counties) | 6110-228-0001 (Prov.2) | 24528 |
| Class Size ReductionGrade 9 | 6110-232-0001 | 23498 |
| International Baccalaureate | 6110-240-0001(1) | 23901 |
| Advance Placement Fee Reimbursement | 6110-240-0001(2) | 23900 |
| California Assoc. of Student Councils | 6110-242-0001 | 24120 |
| PupilRetentionBlock Grant | 6110-243-0001 | 24715 |
| TeacherCredentialingBlock Grant | 6110-244-0001 | 24714 |
| TeacherCredentialingBlock Grant Regional Support | 6110-244-0001 (Prov.1) | 24713 |
| ProfessionalDevelopmentBlock Grant | 6110-245-0001 | 24716 |
| TargetedInstructionalImprovementBlock Grant | 6110-246-0001 | 24717 |
| School &LibraryImprovementBlock Grant | 6110-247-0001 | 24718 |
| SchoolSafetyCompetitiveBlockGrant | 6110-248-0001 | 24847 |
| School Safety Competitive Regional | 6110-248-0001 (Prov.1) | 23854 |
| PhysicalEducation Teacher Incentive | 6110-260-0001 | 24806 |
| Arts and Music Block Grant | 6110-265-0001 | 24807 |
| WilliamsCountyOversight | 6110-266-0001 | 24808 |
| ValenzuelaCounty Oversight | 6110-266-0001 (Prov.1) | 24942 |
| Certificated Staff Mentoring | 6110-267-0001 | 24856 |
| Oral Health(District) | 6110-268-0001 | 24879 |
| Oral Health (COE) | 6110-268-0001 | 24879 |
| PENDINGStandards for Preparation and Licensing of Teachers (CTC) * | 6360-101-0001 | |
| Community Day School Additional Funding for Mandatory Expelled Pupils | EC 48915(c) | 10127 |
| Class Size ReductionKindergarten-Grade 3 | SB 1016; Sec 91 (Chp 38, 2012) | 25201 |

# Fiscal Health Risk Analysis


## Key Fiscal Indicators

The Fiscal Health and Risk Analysis was developed by FCMAT as a management tool to evaluate key fiscal indicators that will assist a school district in measuring its financial solvency for the current and two subsequent fiscal years as recommended by AB 1200. The presence of any single criteria is not necessarily an indication of a district in fiscal crisis. However, districts exceeding the risk threshold of six or more "No" responses may have cause for concern and require some level of fiscal intervention. Diligent planning will enable a district to better understand its financial objectives and strategies to sustain its financial solvency. A district must continually update its budget as new information becomes available from within the district or from other funding and regulatory agencies.

The Fiscal Health and Risk Analysis includes 17 components of key fiscal indicators to measure a district's potential risk. Any of the 17 individual components receiving a simple majority of "No" responses to the questions it contains should be rated with an overall "No" response.

| *Is the district's fiscal health acceptable in the following areas?* | Yes | No | N/A |
|---|---|---|---|
| **1. Deficit Spending** | ❑ | ❑ | ❑ |
| • Is the district avoiding deficit spending in the current year? | ❑ | ❑ | ❑ |
| • Is the district avoiding deficit spending in the two subsequent fiscal years? | ❑ | ❑ | ❑ |
| • Has the district controlled deficit spending over the past two fiscal years? | ❑ | ❑ | ❑ |
| • Is the issue of deficit spending addressed by fund balance, ongoing revenues, or expenditure reductions? | ❑ | ❑ | ❑ |
| - Has the board approved a plan to eliminate deficit spending? | | | |
| **2. Fund Balance** | ❑ | ❑ | ❑ |
| • Is the district's fund balance at or consistently above the recommended reserve for economic uncertainty? | ❑ | ❑ | ❑ |
| • Is the fund balance stable or increasing due to ongoing revenues and/or expenditure reductions? | ❑ | ❑ | ❑ |
| • Does the fund balance include any designated reserves for unfunded liabilities or one time costs above the recommended reserve level? | ❑ | ❑ | ❑ |
| **3. Reserve for Economic Uncertainty** | ❑ | ❑ | ❑ |
| • Is the district able to maintain its reserve for economic uncertainty in the current and two subsequent years based on current revenue and expenditure trends? | ❑ | ❑ | ❑ |
| • Does the district have additional reserves in Fund 17, Special Reserve for Non Capital Projects? | ❑ | ❑ | ❑ |
| • If not, is there a plan to restore the reserve for economic uncertainties in the district's multiyear financial projection? | ❑ | ❑ | ❑ |

| *Is the district's fiscal health acceptable in the following areas?* | Yes | No | N/A |
|---|---|---|---|
| **4. Enrollment** | ❑ | ❑ | ❑ |
| • Has the district's enrollment been increasing or stable for multiple years? | ❑ | ❑ | ❑ |
| • Is the district's enrollment projection updated at least semiannually? | ❑ | ❑ | ❑ |
| • Are staffing adjustments for certificated and classified employee groups consistent with the enrollment trends? | ❑ | ❑ | ❑ |
| • Does the district analyze enrollment and average daily attendance (ADA) data? | ❑ | ❑ | ❑ |
| • Does the district track historical data to establish future trends between P-1 and P-2 for projection purposes? | ❑ | ❑ | ❑ |
| • Has the district implemented any attendance programs to increase ADA? | ❑ | ❑ | ❑ |
| • Have approved charter schools had little or no impact on the district's student enrollment? | ❑ | ❑ | ❑ |
| • Does the district have a board policy that attempts to reduce the effect that transfers out of the district have on the district's enrollment? | ❑ | ❑ | ❑ |
| **5. Interfund Borrowing** | ❑ | ❑ | ❑ |
| • Can the district manage its cash flow in all funds without interfund borrowing? | ❑ | ❑ | ❑ |
| • Is the district repaying the funds within the statutory period in accordance with Education Code section 42603? | ❑ | ❑ | ❑ |
| **6. Bargaining Agreements** | ❑ | ❑ | ❑ |
| • Has the district settled the total cost of the bargaining agreements at or under COLA during the current and past three years? | ❑ | ❑ | ❑ |
| • Did the district conduct a pre-settlement analysis identifying an ongoing revenue source to support the agreement? | ❑ | ❑ | ❑ |
| • Did the district correctly identify the related costs above the COLA, (i.e. statutory benefits, step and column)? | ❑ | ❑ | ❑ |
| • Did the district address budget reductions necessary to sustain the total compensation increase including a board-adopted plan? | ❑ | ❑ | ❑ |
| • Did the superintendent and CBO certify the agreement prior to ratification? | ❑ | ❑ | ❑ |
| • Is the governing board's action consistent with the superintendent's/CBO's certification? | ❑ | ❑ | ❑ |
| • Did the district submit to the county office of education the AB 1200\2756 full disclosure as required? | ❑ | ❑ | ❑ |

| *Is the district's fiscal health acceptable in the following areas?* | Yes | No | N/A |
|---|---|---|---|
| **7. General Fund** | ❑ | ❑ | ❑ |
| • Is the percentage of the district's general fund unrestricted budget allocated to salaries and benefits at or under the statewide average? | ❑ | ❑ | ❑ |

**Salary and Benefit Expense as a Percentage of Total Expense**

| | *Unrestricted General Fund* | | | *Total General Fund* | | |
|---|---|---|---|---|---|---|
| *Statewide Averages* | *2006-07* | *2007-08* | *2008-09* | *2006-07* | *2007-08* | *2008-09* |
| Unified | 90.84% | 91.77% | 92.16% | 82.14% | 82.12% | 83.00% |
| Elementary | 89.56% | 90.51% | 90.77% | 80.94% | 80.96% | 82.05% |
| High School | 87.83% | 89.19% | 89.20% | 79.61% | 80.60% | 81.81% |

*Source: School Services of California*

| | | | |
|---|---|---|---|
| • Is the district making sure that only ongoing restricted dollars pay for permanent staff? | ❑ | ❑ | ❑ |
| • Does the budget include reductions in expenditures proportionate to one-time revenue sources, such as parcel taxes, that will terminate in the current or two subsequent fiscal years? | ❑ | ❑ | ❑ |
| • If the district receives redevelopment revenue that is subject to AB 1290 and SB 617, has it made the required offset to the revenue limit? | ❑ | ❑ | ❑ |
| **8. Encroachment** | ❑ | ❑ | ❑ |
| • Is the district aware of the Contributions to Restricted Programs in the current year? (Identify cost, programs and funds) | ❑ | ❑ | ❑ |
| • Does the district have a reasonable plan to address increased encroachment trends? | ❑ | ❑ | ❑ |
| • Does the district manage encroachment from other funds such as Adult, Cafeteria, Child Development, etc.? | ❑ | ❑ | ❑ |
| **9. Management Information Systems** | ❑ | ❑ | ❑ |
| • Is the district's financial data accurate and timely? | ❑ | ❑ | ❑ |
| • Are the county and state reports filed in a timely manner? | ❑ | ❑ | ❑ |
| • Are key fiscal reports readily available and understandable? | ❑ | ❑ | ❑ |
| • Is the district on the same financial system as the county? | ❑ | ❑ | ❑ |
| • If the district is on a separate financial system, is there an automated interface with the financial system maintained by the county? | ❑ | ❑ | ❑ |

| *Is the district's fiscal health acceptable in the following areas?* | Yes | No | N/A |
|---|---|---|---|
| **10. Position Control** | ❑ | ❑ | ❑ |
| • Does the district maintain a reliable position control system? | ❑ | ❑ | ❑ |
| • Is position control integrated with payroll? | ❑ | ❑ | ❑ |
| • Does the district control unauthorized hiring? | ❑ | ❑ | ❑ |
| • Are the appropriate levels of internal controls in place between the business and personnel departments to prevent fraudulent activity? | ❑ | ❑ | ❑ |
| • Does the district use position control data for budget development? | ❑ | ❑ | ❑ |
| • Is position control reconciled against the budget during the fiscal year? | ❑ | ❑ | ❑ |
| **11. Budget Monitoring** | ❑ | ❑ | ❑ |
| • Are budget revisions completed in a timely manner? | ❑ | ❑ | ❑ |
| • Does the district openly discuss the impact of budget revisions at the board level? | ❑ | ❑ | ❑ |
| • Are budget revisions made or confirmed by the board at the same time the collective bargaining agreement is ratified? | ❑ | ❑ | ❑ |
| • Has the district's long term debt decreased from the prior fiscal year? | ❑ | ❑ | ❑ |
| • Has the district identified the repayment sources for long term debt or non voter-approved debt, i.e. certificates of participation, capital leases? | ❑ | ❑ | ❑ |
| • Does the district's financial system have a hard coded warning regarding insufficient funds for requisitions and purchase orders? | ❑ | ❑ | ❑ |
| • Does the district encumber salaries and benefits? | ❑ | ❑ | ❑ |
| **12. Retiree Health Benefits** | ❑ | ❑ | ❑ |
| • Has the district completed an actuarial valuation to determine the unfunded liability under GASB 45 requirements? | ❑ | ❑ | ❑ |
| • Does the district have a plan for addressing the retiree benefits liabilities? | ❑ | ❑ | ❑ |
| • Has the district conducted a re-enrollment process to identify eligible retirees? | ❑ | ❑ | ❑ |
| **13. Leadership/Stability** | ❑ | ❑ | ❑ |
| • Does the district have a superintendent and/or chief business official that has been with the district more than two years? | ❑ | ❑ | ❑ |
| • Does the governing board adopt clear and timely policies and support the administration in their implementation? | ❑ | ❑ | ❑ |

| *Is the district's fiscal health acceptable in the following areas?* | Yes | No | N/A |
|---|---|---|---|
| **14. Charter Schools** | ❑ | ❑ | ❑ |
| • Has the district identified a specific employee or department to be responsible for oversight of the charter? | ❑ | ❑ | ❑ |
| • Has the charter school submitted the required financial reports? | ❑ | ❑ | ❑ |
| • Has the charter school commissioned an independent audit? | ❑ | ❑ | ❑ |
| • Does the audit reflect findings that will not impact the fiscal certification of the authorizing agency? | ❑ | ❑ | ❑ |
| • Is the district monitoring and reporting the current status to the board to ensure that an informed decision can be made regarding the reauthorization of the charter? | ❑ | ❑ | ❑ |
| **15. Audit Report** | ❑ | ❑ | ❑ |
| • Did the district receive an audit report without material findings? | ❑ | ❑ | ❑ |
| • Can the audit findings be addressed without impacting the district's fiscal health? | ❑ | ❑ | ❑ |
| • Has the audit report been completed and presented within the statutory time line? | ❑ | ❑ | ❑ |
| • Are audit findings and recommendations reviewed with the board? | ❑ | ❑ | ❑ |
| • Did the audit report meet both GAAP and GASB standards? | ❑ | ❑ | ❑ |
| **16. Facilities** | ❑ | ❑ | ❑ |
| • Has the district passed a general obligation bond? | ❑ | ❑ | ❑ |
| • Has the district met the audit and reporting requirements of Proposition 39? | ❑ | ❑ | ❑ |
| • Is the district participating in the state's School Facilities Program? | ❑ | ❑ | ❑ |
| • Does the district have sufficient personnel to properly track and account for facility-related projects? | ❑ | ❑ | ❑ |
| • Has the district met the reporting requirements of the Williams Act? | ❑ | ❑ | ❑ |
| • Is the district properly accounting for the 3% Routine Repair and Maintenance Account requirement at the time of budget adoption? | ❑ | ❑ | ❑ |
| • If needed, does the district have surplus property that may be sold or used for lease revenues? | ❑ | ❑ | ❑ |
| • If needed, are there other potential statutory options? | ❑ | ❑ | ❑ |
| - Joint Use: Can the district enter into a joint use agreement with some entities without declaring the property surplus and without bidding? | | | |
| - Joint Occupancy: The Education Code provides for a joint venture that can authorize private development of district property that will result in some educational use. | | | |

- Does the district have a facilities master plan that was completed or updated in the last two years? . . . . . ❑ ❑ ❑

## 17. General Ledger ❑ ❑ ❑

- Has the district closed the general ledger (books) within the time prescribed by the county office of education?? . . . . . ❑ ❑ ❑
- Does the district follow a year-end closing schedule? . . . . . ❑ ❑ ❑
- Have beginning balances in the new fiscal year been recorded correctly for each fund from the prior fiscal year? . . . . . ❑ ❑ ❑
- Does the district adjust prior year accruals if the amounts actually received (A/R) or paid (A/P) are greater or less than the amounts accrued? . . . . . ❑ ❑ ❑
- Does the district reconcile all payroll suspense accounts at the close of the fiscal year? . . . . . ❑ ❑ ❑

**RISK ANALYSIS**

1. Total the number of component areas in which the district's fiscal health is not acceptable ("No" responses).
2. Use the key below to determine the level of risk to the district's fiscal health.

| 0 – 4 | 5 – 9 | 10 – 14 | 15 – 17 |
|---|---|---|---|
| Low | Moderate | High | Extremely High |

| Total "No" Responses |
|---|
| |

# Delayed Principal Apportionment Funding

Appendix C

## 2013-14 State Budget Act

2012-13

2014-15

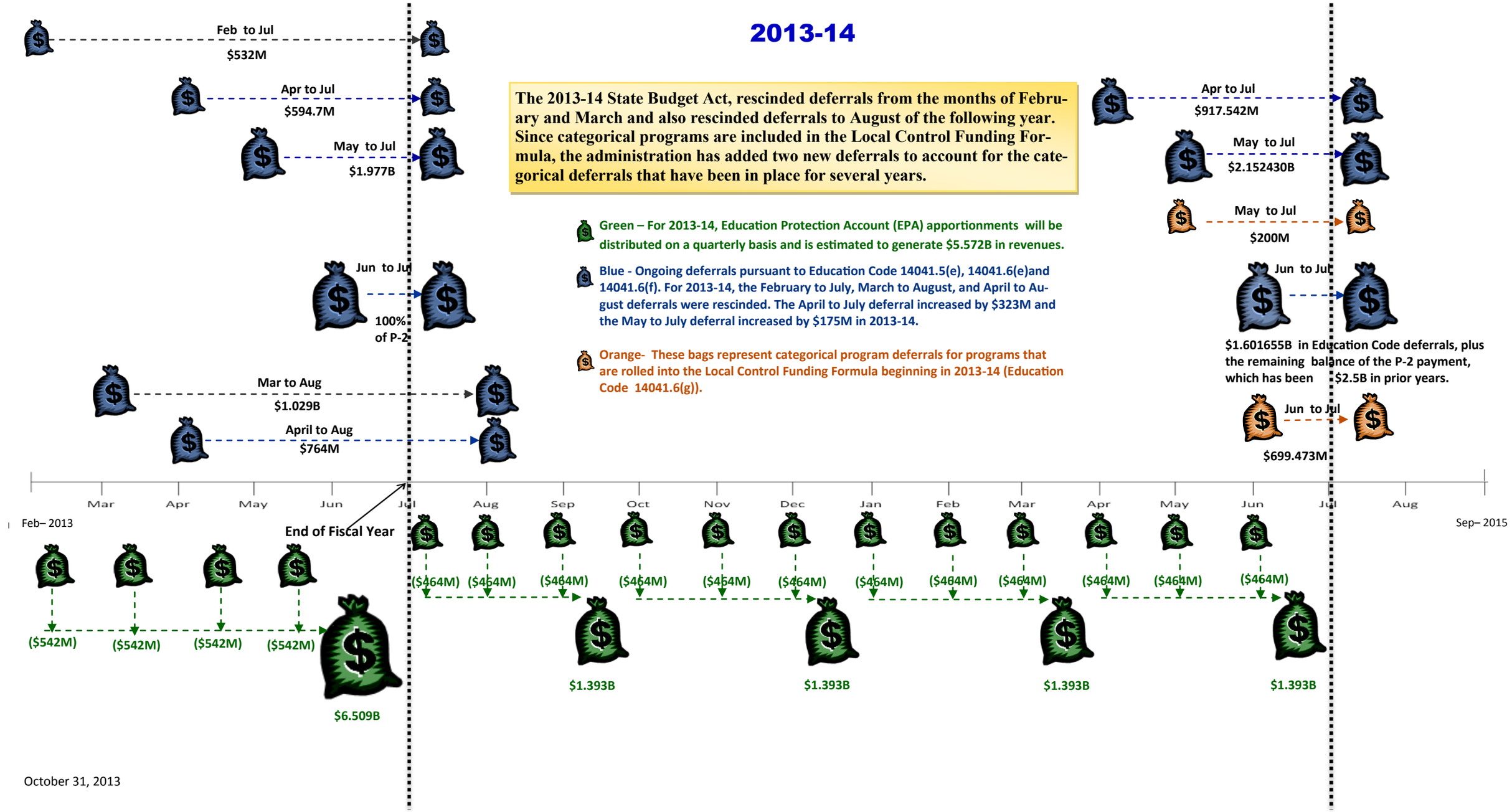
### 2013-14

The 2013-14 State Budget Act, rescinded deferrals from the months of February and March and also rescinded deferrals to August of the following year. Since categorical programs are included in the Local Control Funding Formula, the administration has added two new deferrals to account for the categorical deferrals that have been in place for several years.

Green – For 2013-14, Education Protection Account (EPA) apportionments will be distributed on a quarterly basis and is estimated to generate $5.572B in revenues.

Blue - Ongoing deferrals pursuant to Education Code 14041.5(e), 14041.6(e)and 14041.6(f). For 2013-14, the February to July, March to August, and April to August deferrals were rescinded. The April to July deferral increased by $323M and the May to July deferral increased by $175M in 2013-14.

Orange- These bags represent categorical program deferrals for programs that are rolled into the Local Control Funding Formula beginning in 2013-14 (Education Code 14041.6(g)).




October 31, 2013

# LCFF Acronyms

- ADA Average Daily Attendance
- BASC Business and Administration Steering Committee
- BGS Base Grade Span
- BOE Board of Education (LEAs)
- CDE California Department of Education
- COE County Office of Education
- CY Current Year
- DOF Department of Finance
- EC Education Code
- EL English Learners
- ERT Economic Recovery Target
- FRPM Free and Reduced Priced Meals
- FY Foster Youth
- GSA Grad Span Adjustment
- LAO Legislative Analyst's Office
- LEA Local Educational Agency (Districts, Charters, & COEs)
- LCAP Local Control Accountability Plan
- LCFF Local Control Funding Formula
- LI Low Income
- NSLP National School Lunch Program
- NSS Necessary Small School
- PY Prior Year
- RL Revenue Limit
- SACS Standardized Account Code Structure
- SBE State Board of Education
- SDC Special Day Class
- SED Socioeconomically Disadvantaged
- TIIBG Targeted Instructional Improvement Block Grant

FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
CSIS California School Information Services

# How Certified CALPADS Data are Used and Consequences

The data certified in the CALPADS Annual Submissions are used for many purposes, including funding calculations for various State and Federal programs. Note that if an LEA does not certify one or more of the Annual Submissions they will be higher on the list for a compliance audit.

| Annual Submission | State or Federal | State/Federal Data Usage | LEA Impact if Not Certified |
|---|---|---|---|
| **Fall 1:**<br>• **2013–14 enrollment counts**<br>• **2012–13 Grads & Dropouts**<br>• **Immigrant counts**<br>• **Free and reduced meal counts**<br>• **English Language Acquisition Status** | **State** | DataQuest (Enrollment, Graduates, Dropouts, EL and FEP Counts, and SNOR) | 0 counts |
| | | School Accountability Report Card (SARC) | No SARC pre-population |
| | | Economic Impact Aid (EIA) Program funding calculation | 0 counts & impact on funding for COEs operating Juvenile Court schools and EIA-designated small rural districts |
| | | Department of Finance for LCFF Supplemental and Concentration Funding | 0 counts & impact on funding |
| | | Quality Education Investment Act (QEIA) funding | 0 counts & 0 funding |
| | | Department of Finance for budget projections | 0 counts |
| | | To address requests from policy makers, researchers, and other entities | 0 counts |
| | **Federal** | Title I and Title II | 0 counts & 0 funding for COEs and Direct Funded Charter schools |
| | | NCLB Consolidated State Performance Report (CSPR) | 0 counts |
| | | NCLB Title III Limited English Proficiency Program | 0 counts & 0 funding |
| | | NCLB Title III Immigrant Program (SNOR) | 0 counts & 0 funding |
| | | Titles VI & IX reports for the Civil Rights Act of 1964 | 0 counts |
| | | Individuals with Disabilities Education Act (IDEA) | 0 counts |
| | | Various U.S. Department of Education (ED) organizational websites | 0 counts |
| | **Both** | Eligibility to apply for various state and federal grants (especially those based on counts of socioeconomically disadvantaged students) | 0 counts and ineligibility to apply for grants |
| **Fall 2:**<br>• **Staff assignments**<br>• **Student course enrollments**<br>• **English Learner services**<br>• **Highly Qualified Teacher** | **State** | DataQuest (Teacher Counts, Course Enrollments, and EL Services) | 0 counts |
| | | CCR Title V, Section 97 (certificated staff) | 0 counts |
| | **Federal** | NCLB Consolidated State Performance Report (CSPR) | 0 counts |
| | | Highly Qualified Teacher (HQT) | 0 counts and potential placement on sanction list |

# How Certified CALPADS Data are Used and Consequences

| | | | |
|---|---|---|---|
| **EOY-1:**<br>• **Course completion**<br>• **Career Technical Education (CTE) concentrators and completers** | **State** | DataQuest (Course Completion & CTE) | 0 counts |
| | **Federal** | Carl Perkins Program (CTE Concentrators and Completers) | 0 counts & grant eligibility |
| **EOY-2:**<br>• **Program participation**<br>• **Homeless enrolled counts** | **State** | DataQuest (Programs and Homeless) | 0 counts |
| | **Federal** | Elementary and Secondary Education Act (ESEA) Title 1, Part A Neglected | 0 counts & grant eligibility |
| | | EDEN (Education Data Exchange Network) Reporting | 0 counts |
| | | NCLB Consolidated State Performance Report (CSPR) | 0 counts |
| **EOY-3:**<br>• **Student discipline** | **State** | DataQuest (Discipline) | 0 counts |
| | **Federal** | NCLB Consolidated State Performance Report (CSPR) | 0 counts |
| | | NCLB Title IX - At Risk/Persistently Dangerous Schools | 0 counts |
| | | ESEA Title IV, Part A, Subpart 3, Section 4141 (e) - Firearm Offenses | 0 counts |
| | | Gun Free Schools Act Annual Survey | 0 counts |
| **EOY-4:**<br>• **Student waivers and exemptions** | **State** | DataQuest (Waivers and Exemptions) | 0 counts |
| **Assessments** | **State** | School Accountability Report Card (SARC) | Assessment data is not certified, but if Suspense records are not fixed counts will be lower.<br>Enrollment and Exit data in the CALPADS Operational Data Store is used to determine continuous enrollment; STAR and CAHSEE scores of students not continuously enrolled will not be included in API and AYP calculations |
| | | Academic Performance Index (API) Base and Growth students groups | |
| | **Federal** | Adequate Yearly Progress (AYP) targets | |