



February 10, 2015

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

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

Re: **2014-15 Second Interim Budget Advisory**

This budget advisory is intended to provide information and guidance to assist local educational agencies (LEAs) in preparing the 2014-15 Second Interim Report.

It contains information related to the following items:

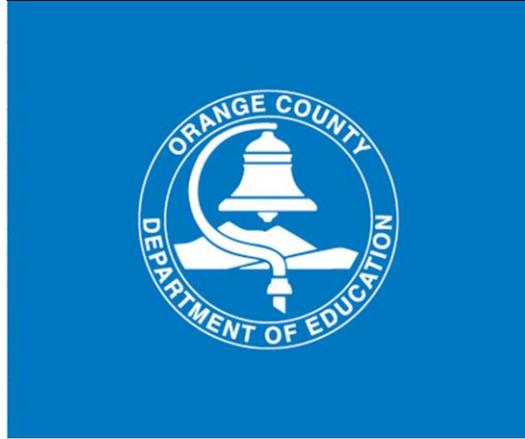
- Governor's 2015-16 Budget Proposal
- Key guidance for 2014-15 second interim report development
- Local Control Funding Formula (LCFF) and related funding updates
- Cash management updates
- Funding outside of LCFF

Please contact me at (714) 966-4229 if you have any questions or concerns related to this information.

Enclosures

cc: Directors, Business Services  
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Kevin Hale, Orrick, Herrington & Sutcliffe, LLP  
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Shari Freidenrich, CPA, Orange County Treasurer-Tax Collector





# **Orange County Budget Advisory**

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**Second Interim 2014-15**

# Table of Contents

<b>Introduction .....</b>	<b>5</b>
<b>Significant Changes since Budget Adoption .....</b>	<b>5</b>
<b>Summary of Material Changes .....</b>	<b>5</b>
<b>Planning Factors for Second Interim and MYPs .....</b>	<b>6</b>
<b>Key Guidance for Second Interim .....</b>	<b>6</b>
<b>Situational Guidance and Multiyear Projections .....</b>	<b>6</b>
<b>Reserves.....</b>	<b>7</b>
<b>Negotiations.....</b>	<b>8</b>
<b>Proposition 98 / Revenues.....</b>	<b>8</b>
<b>Local Control Funding Formula .....</b>	<b>9</b>
<b>Property Taxes .....</b>	<b>10</b>
<b>CALPADS .....</b>	<b>10</b>
<b>Special Circumstances and the LCFF .....</b>	<b>12</b>
<b>Adult Education.....</b>	<b>12</b>
<b>Basic Aid.....</b>	<b>12</b>
<b>Charter Schools .....</b>	<b>12</b>
<b>COE Revenue Transfers .....</b>	<b>13</b>
<b>Independent Study (IS).....</b>	<b>14</b>
<b>Career Technical Education .....</b>	<b>14</b>
<b>Cash Management.....</b>	<b>15</b>
<b>Education Protection Account.....</b>	<b>16</b>
<b>Funding Outside of the LCFF .....</b>	<b>16</b>
<b>Child Care and State Preschool .....</b>	<b>16</b>
<b>Interest Yield Projections.....</b>	<b>17</b>
<b>Medi-Cal Administrative Activities .....</b>	<b>17</b>
<b>Audit Requirements.....</b>	<b>17</b>
<b>Retirement .....</b>	<b>18</b>
<b>Summary.....</b>	<b>19</b>

## Introduction

This budget advisory is intended to provide information and guidance to assist local educational agencies (LEAs) in developing their 2014-15 second interim reports. It contains information related to the Governor's 2015-16 Budget Proposal and any other new or updated details. For any topic not covered in this abbreviated version, please reference to our 2014-15 First Interim Budget Advisory dated November 4, 2014.

## Significant Changes since Budget Adoption

### *Summary of Material Changes*

The Governor released his 2015-16 budget proposal on January 9, 2015. Under the Governor's proposal, K-14 education spending levels are increased by \$7.8 billion over three years: 2013-14, 2014-15 and 2015-16. Increases in 2013-14 (approximately \$400 million) and 2014-15 (\$2.3 billion) are used exclusively for one-time purposes. The Governor continues his commitment to fiscal discipline and to the Local Control Funding Formula (LCFF). Approximately \$4 billion of his proposal is an ongoing commitment to provide LCFF gap funding. The additional aspects of his proposal are:

- Provides nearly \$900 million in one-time funding to eliminate all remaining outstanding cash deferral debt for K-12
- An increase of \$59.5 million to support charter school ADA growth
- Provides \$15.3 million to cover projected increases in Special Education ADA and growth
- Provides \$71.1 million for cost of living adjustment (1.58%) for 2015-16 to categorical programs that remain outside the LCFF
- \$273.4 million is proposed as one time funding for the emergency facility repair program which will retire the state's facilities funding obligation under the terms of the Williams lawsuit settlement
- An increase of \$197.6 million in 2014-15 for increases in ADA and a decrease of \$6.9 million in 2015-16 for a projected decline in ADA
- Provides an increase of \$14.8 million in Prop. 98 and \$18.8 million in non-Prop. 98 to support 4,000 State Preschool slots with full-day wrap around care
- \$1.03 billion in one time funds provided for recommended use in implementing state standards but will be unrestricted. These funds will offset any existing mandated claim debt for LEAs.

- A new Career Technical Education Incentive Grant is proposed to be established with \$250 million in each of three years beginning 2015-16
- \$500 million provided to establish the ongoing Adult Education Block Grant Program
- \$100 million proposed in one time Prop. 98 funding to support additional investments in internet connectivity and infrastructure

## ***Planning Factors for Second Interim and MYPs***

Key planning factors for LEAs to incorporate into the second interim report and multiyear projections are listed below and based on the latest information available as of January 2015.

<i>Planning Factor</i>	<i>Fiscal Year</i>		
	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>
COLA (DOF)	0.85%	1.58%	2.17%
LCFF Gap Funding Percentage (DOF)	29.15%	32.19%	23.71%
STRS Employer Rates	8.88%	10.73%	12.58%
PERS Employer Rates (PERS Board / Actuary)	11.771%	12.6%	15.0%
Lottery – unrestricted per ADA*	\$128	\$128	\$128
Lottery – Prop. 20 per ADA*	\$34	\$34	\$34
Mandated Cost per ADA	\$67	\$171	\$0
Mandate Block Grant for Districts – K-8 per ADA	\$28	\$28	\$28
Mandate Block Grant for Districts – 9-12 per ADA	\$56	\$56	\$56
Mandate Block Grant for Charters – K-8 per ADA	\$14	\$14	\$14
Mandate Block Grant for Charters – 9-12 per ADA	\$42	\$42	\$42
State Preschool Daily Reimbursement Rate	\$22.28	\$22.63	\$22.63
General Child Care Daily Reimbursement Rate	\$36.10	\$36.67	\$36.67
Routine Restricted Maintenance Account	1%	3%	3%

\* Government Code 8880.5(a)(2) extended lottery funding based on the 2007-08 ROP ADA and Adult Education ADA through 2014-15. Under current law these two ADA counts will no longer be part of the lottery calculation for 2015-16 and beyond.

## **Key Guidance for Second Interim**

### ***Situational Guidance and Multiyear Projections***

The Governor’s budget assumes significant growth in Prop. 98 revenue. This is good news for LEAs as it leads to an increase in the projected 2015-16 LCFF gap funding percentage, to a current estimate of 32.19%, as well as significant one-time resources for

a variety of purposes. However, this surge in funding also serves to highlight the volatility of state revenues. Under LCFF such rapid revenue growth can create expenditure challenges as well, such as a need to accelerate the reduction in districts K-3 class sizes, increasing competition for a limited pool of qualified teaching candidates, coupled with increasing STRS and PERS costs borne by employees and employers.

LEAs face increasing pressure to continuously improve outcomes for students related to the Local Control Accountability Plan (LCAP), which might require the need to reallocate resources if existing programs are not producing the desired results. Every LEA faces its own particular set of educational challenges, and thus there is no “one size fits all” plan. Similarly, every LEA faces its own particular set of financial risk factors based on current reserve levels, enrollment trends, bargaining agreements, degree of exposure to LCFF revenue volatility and a host of other local and statewide factors.

Every LEAs situation is unique, and in such a dynamic and uncertain operating environment, there are key aspects to maintaining fiscal solvency and protecting the integrity of educational programs that apply to all districts:

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

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

LEAs should also consider building in contingencies for emerging expenditure requirements such as AB 1522 sick leave accrual for part-time employees, possible pressure to prefund OPEB programs, or future facility needs, to name a few examples.

## **Reserves**

The Legislative Analyst’s Office (LAO) released its Analysis of School District Reserves report in January 2015: <http://lao.ca.gov/Publications/Detail/3163>. The report concluded that decisions about reserve levels are a key component of the annual choices school districts make about allocating their resources. The report stated district reserves vary across the state for a wide variety of circumstances, and healthy reserves help districts avoid risks and costs. They determined reserves allow districts to manage cash flow, mitigate funding volatility, address unexpected costs, save for large purchases and reduce borrowing costs. The LAO concluded the Legislature could improve local planning and make district budgets more responsive to local needs if it would repeal the SB 858 reserve caps and focus attention on refining reserve disclosure requirements.

Regardless of whether or not the SB 858 reserve cap is repealed, districts should continue to maintain adequate reserves for prudent short-term fiscal planning and long-term fiscal solvency.

## **Negotiations**

The varying distribution of gap funding during the LCFF implementation period complicates collective bargaining because LEAs may have widely divergent levels of funding. Districts may need to reconsider the list of “comparable” employers used for benchmarking compensation.

Changes to PERS and STRS contributions for new members, increased contribution rates, and evolving definitions of creditable compensation add further complexity, as does the ongoing implementation of the Affordable Care Act (ACA). Volatile LCFF gap factors lead to changing requirements for progress towards the K-3 24:1 class size ratio. In addition, the annual LCAP planning cycle and the pursuit of continuous improvement will lead to shifting priorities and resource allocations.

In this dynamic and evolving environment, maintaining flexibility in labor agreements is crucial, whether through reopeners, single year contracts or if using contingency language. Districts will need to exercise caution in proposed language for negotiated bonus payments to avoid penalty and interest charges on some retroactive payments. See Appendix A for example language.

## **Proposition 98 / Revenues**

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

(All numbers in billions)

Fiscal Year 2015-16	Projected Statewide Revenue	Prop. 98 Calculation	Property Tax Portion of Prop. 98	State Budget Portion of Prop. 98	Non-Prop. 98 Budget	Ending Balance
Jan. 2015	\$113.4	\$65.7	\$18.7	\$47.0	\$66.3	\$1.5

(All numbers in billions)

The 2015-16 proposed state budget brings the potential for more than \$7 billion in additional Prop.98 funding for K-14. \$371 million of the increase is attributable to 2013-14 and will yield one-time funding for the budget. The current year, 2014-15, receives an increase of Prop. 98 funding from \$60.9 to \$63.2 billion – yielding \$2.3 billion in additional funding for the current year as well as the budget year. The Governor’s initial projections for 2015-16 show an additional \$2.5 billion on top of the revised 2014-15 numbers.

The non-Prop. 98 side of the state budget has grown at a higher rate in comparison to the Prop. 98 proposed budget. This is reflected in comparing the January budget of last year to the January budget of 2015-16:

Fiscal Year	Projected Statewide Revenue	Prop. 98 Calculation	Property Tax Portion of Prop. 98	State Budget Portion of Prop. 98	Non-Prop. 98 Budget	Ending Balance
Jan. 2014	\$106.1	\$61.6	\$16.5	\$45.1	\$61.7	\$3.2
Jan. 2015	\$113.4	\$65.7	\$18.7	\$47.0	\$66.3	\$1.5

The increase in Prop. 98 of \$4.1 billion is made up of \$2.2 billion from increased property taxes. The state contributes only \$1.9 billion more than projected at this time last year. The increase in state funding to the non-Prop. 98 side of the budget is \$4.6 billion.

## Local Control Funding Formula

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

The following amounts should be used for target LCFF Base Grants and Grade Span Adjustments, which include the estimated COLA:

Grade Level	2014-15 Target Base Grant	2014-15 Target GSA	2015-16 Target Base Grant	2015-16 Target GSA
Grades TK-3	\$7,012	\$729	\$7,122	\$741
Grades 4-6	\$7,116		\$7,228	
Grades 7-8	\$7,328		\$7,444	
Grades 9-12	\$8,491	\$221	\$8,625	\$224

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

	Actual 2013-14	Estimate 2014-15	Estimate 2015-16	Estimate 2016-17
<b>LCFF Gap Funding Percentage</b>	12.00%	29.15%	32.19%	23.71%
<b>Annual COLA</b>	1.57%	0.85%	1.58%	2.17%

## ***Property Taxes***

The Orange County Assessor’s 2014-15 Local Assessment Roll of Values indicates that roll values have increased countywide by 6.42% or \$28.4 billion. Statewide, the Proposition 13 Consumer Price Index (CPI) increase is 0.45% for all properties that have a market value greater than the Proposition 13 taxable value on January 1, 2014.

School districts are advised to use the 2014-15 P-1 local property tax estimates when preparing the 2014-15 Second Interim report. The Orange County Auditor-Controller will provide 2014-15 P-2 local property tax estimates in April 2015.

## **CALPADS**

### ***Key Upcoming Deadlines***

- Fall 1 amendment window is open. LEAs must certify Fall 1 data by February 27, 2015
- Fall 2 certification deadline is March 6, 2015

If an LEA received an audit adjustment for the 2013-14 CALPADS data, it must use the latest version of the Principal Apportionment Data Collection software and select the Corrected Annual reporting period. LEAs will report the net difference to CALPADS enrollment and/or unduplicated pupil count based on the LEA’s audit finding.

- Prior year corrections deadline is March 2, 2015

### ***California Assessment of Student Performance and Progress (CAASPP) Student Test Registration***

The assessments that comprise the 2015 California Assessment of Student Performance and Progress (CAASPP) administration are a mix of computer-based and paper-pencil assessments. The California Longitudinal Pupil Achievement Data System (CALPADS) is the authoritative source for student enrollment, demographic, and program information for the student test registration system known as the Test Operations Management System (TOMS). The student-level data in CALPADS will be used for both the Smarter

Balanced assessments (summative and interim) and the CAASPP paper-pencil assessments. The use of CALPADS data for these assessments underscores the importance of keeping CALPADS up to date and accurate.

Registration for the tests will occur through a nightly upload of CALPADS data to the TOMS test registration system. LEAs will be able to view and check the students in their districts and schools in TOMS, but cannot update the data in TOMS. It is therefore critical to keep student demographic, enrollment, and program data current in CALPADS.

### ***Foster Youth Reporting***

The California Department of Social Services (CDSS) provides the CDE a data file from the Child Welfare Services/Case Management System (CWS/CMS) to conduct the statewide match. Currently many county welfare departments and local educational agencies (LEAs) share data, conducting matches of data in CWS/CMS and local student information systems to identify foster students. Even though a statewide match is now in place, LEAs may choose to continue to conduct matches with their county welfare departments. Should county welfare departments continue to participate in local matching efforts, they should use the same methodology used by the CDSS for the state file provided to the CDE.

If LEAs identify additional students through a local match that were not identified in the statewide match, LEAs may now look up foster youth in CALPADS using the 10-digit Client ID or the 19-digit Case ID. CALPADS stores all foster clients and case IDs received from the CDSS regardless of whether the records are matched with CALPADS data. Therefore, if an LEA looks up a student using either ID, and one of the IDs is found in CALPADS, the LEA is able to match the student who will then show up in subsequent foster reports. The state matching process is based primarily on name (first, middle, last), date of birth, and an overlapping school enrollment in the past three years. Maintaining up-to-date enrollment data in CALPADS is important.

### ***Access to Foster Youth Reports***

Appropriate district and school program staff should be provided access to the CALPADS foster reports 5.6 and 5.7 to enable them to serve foster youth and meet the goals specified in Local Control and Accountability Plans (LCAPs).

A video tutorial is available for the CALPADS foster reporting functionality at <http://csis.fcmat.org/Pages/Mini-Tutorial-Clips.aspx>.

# **Special Circumstances and the LCFF**

## **Adult Education**

The Governor's 2015-16 budget proposal calls for \$500 million in ongoing Prop. 98 funding for a new Adult Education Block Grant, which is intended to support activities in the following areas of adult education:

- Elementary and secondary basic skills
- Citizenship, English as a second language, and workforce preparation for immigrants
- Education for adults with disabilities
- Career Technical Education (CTE)
- Apprenticeship

From the \$500 million appropriation, school districts will directly receive an amount equal to the amount they spent in 2012-13, using the funds from the former adult education and adults in correctional facilities programs on adult education. After those allocations have been made, any remainder of the \$500 million will be allocated to the adult education consortia.

As a reminder, MOE compliance will be audited for the 2014-15 fiscal year. See the Audit Requirements section for details.

## **Basic Aid**

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

Basic aid districts will receive minimum state aid (MSA) funding of no less than the amount received in 2012-13. Basic aid districts are subject to the LCAP and the spending regulations under LCFF. The MSA amount is calculated net of the 8.92% fair share reduction.

A district that may be transitioning out of basic aid to state aid status will need to work closely with its county office of education to ensure the district can meet its cash flow needs during transition. In addition, the guarantee of \$200 per ADA from EPA is dependent on basic aid status.

## **Charter Schools**

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

physically located. LCAP requirements for charter schools differ from the requirements specified for school districts.

While no entity approves or disapproves a charter school's LCAP, for 2015-16, the Governor proposes consequences if a charter school fails to improve student outcomes. Under this proposal, a chartering authority would be able to revoke a charter for a school that has received advice from the CCEE and has either failed or is unable to implement its recommendations, or has inadequate performance. In addition, the chartering authority must consider increases in pupil academic achievement as the most important factor in determining whether to revoke.

The 2015-16 proposal includes an augmentation to the Charter School Facility Grant Program to assist charter schools in paying for rent and lease expenditures. The program provides funding to charter schools either serving or located in attendance areas where at least 70% of the students qualify for free or reduced price meals. The proposed program would also permanently lower the free or reduced priced meal requirements to 55% and would provide additional funding to support this program expansion.

## ***COE Revenue Transfers***

Historically, revenue limit funds for students in county-operated special day classes and community schools had been transferred to COEs based on the revenue limit of the student's district of residence. Under the LCFF, these funds instead flow to the student's district of residence, requiring a transfer to the COE. Since the implementation of LCFF, the funds were transferred at the local level.

The LCFF provides that if a district enrolls its students in a COE program, the district will need to work with the COE to transfer the associated LCFF revenue to the COE or work out an alternative agreement for those students. In some instances these transfers may involve students attending COE programs in another county. The CDE has established a process to provide for an optional transfer at the state level, should both the district and the COE agree to the transfer and on the amount to be transferred. This option has been incorporated into the 2014-15 P-1 Data Collection software release. Absent this voluntary election by both entities, COEs and districts should continue to make local arrangements related to funding for these students.

This impacts various programs operated by the COE: special day class, opportunity and community "A" & "B" students, etc.

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

This selection is not required. A district may choose to select some, none, or all of the COEs that serve its students. This screen is only available at P-1. If a district would like

to modify its selection after P-1, a revised P-1 file must be submitted. This selection will need to be made annually.

## ***Independent Study (IS)***

### ***Modified IS Student–Teacher Ratio Requirements***

CDE will soon be issuing a guidance on how to calculate the revised 2014-15 student teacher ratio requirements.

The 2015-16 budget proposal includes language that would no longer require separate calculations for IS programs by grade span. The proposal allows independent study programs to have a ratio of average daily attendance to full time equivalent certificated employees providing instruction, no larger than that of other educational programs operated by the school district unless an alternative ratio is collectively bargained. County offices of education must stay within the ratio for all other educational programs operated by the high school or unified school district with the largest ratio in the county. Counties can also collectively bargain for an alternative ratio.

In charter schools, the applicable average daily attendance-to-certificated-employee ratios may be calculated by using a fixed average daily attendance-to-certificated-employee ratio of 25-to-1, or by using a ratio of less than 25 to 1 for all students, regardless of age. The proposal allows the ratio requirement to be waived if an alternative ratio is negotiated as part of a local collective bargaining agreement.

No student can be required to enter into an IS agreement, and the student cannot be excluded from an IS agreement for lack of ability to provide the equipment or materials.

### ***Reduced Administrative Requirements***

Beginning in 2014-15, IS programs are allowed to store certain student records electronically and to extend written learning contracts across the entire school year rather than a single semester.

In the 2015-16 school year, legislation allows local governing boards to approve entire IS courses (rather than individual assignments) as equivalent to a given amount of instructional time. The local governing board is required to certify annually that these courses are of the same quality and rigor as classroom-based courses and meet relevant state and local academic standards. This eliminates the requirement to sign and date each individual assignment. Students enrolled in these courses need to demonstrate “satisfactory academic progress” as determined bi-monthly by an appropriately credentialed teacher.

## ***Career Technical Education***

The Governor’s Budget Proposal includes \$250 million for each of the next three years for a Career Technical Education (CTE) Incentive Grant. The grant is established as a state education and workforce development initiative with the goal of providing pupils in kindergarten through grade 12 with the knowledge and skills necessary to transition to employment and postsecondary education. School districts, county offices and charter

schools interested in this program will need to complete an application for this competitive grant program. The grant requires a dollar for dollar match and priority for these state funds will be given to LEAs applying in partnership with other LEAs.

## Cash Management

The Governor’s 2015-16 Budget Proposal includes \$897.184 million to eliminate all K-12 deferrals. Even though all cash deferrals are proposed to be eliminated, districts should be cautious and ensure there is sufficient cash to meet all obligations just in case the final cash deferral remains in place.

### ***Cross Fiscal Year Principal Apportionment Deferrals***

Actual K-12 principal apportionment cross fiscal year cash deferrals have declined by \$5.5711 billion in 2014-15. This projected increase includes the remaining \$897.184 million deferral from June 2015 to July 2015. For this cash deferral to be removed and the funds appropriated in June, the Department of Finance must determine on or before May 14, 2015 whether the state revenues are higher than projected in 2014-15. The payoff of the final cash deferral is made under the assumption that the state revenue projections maintain their current levels.

<b>Time Frame</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>
April to July	\$917,542,000	Eliminated	Eliminated
May to July	\$2,352,430,000	Eliminated	Eliminated
June to July	\$2,301,128,000	<b>\$0</b> \$897,184,000 will be paid if state revenues sustain current levels pursuant to 2014-15 Budget Act trigger language	Eliminated
<b>Deferred across fiscal years</b>	<b>\$5,571,100,000</b>	<b>\$0</b>	<b>\$0</b>

For the 2014-15 fiscal year, the State Controller’s Office has posted estimated payment dates for K-12 principal apportionments, lottery apportionments, and Education Protection Account (EPA) Prop. 30 apportionments through December 2015. These dates for January 2015 through June 2015 are listed in the following table:

	<b>Jan. 2015</b>	<b>Feb. 2015</b>	<b>Mar. 2015</b>	<b>Apr. 2015</b>	<b>May 2015</b>	<b>Jun. 2015</b>
K-12 Principal Apportionment	1/28//15	2/27/15	3/26/15	4/28/15	5/27/15	6/30/15
K-12 EPA			3/24/15			6/26/15
K-12 Lottery			3/30/15			6/26/15

## Education Protection Account

The Governor's Budget Proposal estimates the 2015-16 EPA revenues to be \$7.7 billion. The California Department of Education posts information, frequently asked questions and entitlement details on its website (<http://www.cde.ca.gov/fg/aa/pa/epa.asp>).

## Funding Outside of the LCFF

**Offset to Mandated Costs Debt:** The Governor's 2015-16 budget proposes \$1,029,917,000 to offset state obligations for outstanding mandate debt. The funds would go to all LEAs (including charter schools) whether the LEA participated in the mandate program in the past or not. The Governor encourages the funding to be used for implementing state standards but the funding will be unrestricted.

**Mandated Block Grant (MBG) allocation:** For fiscal year 2015-16 the funds will be paid out on a per-ADA basis and are estimated to be approximately \$28 per grades K-8 and \$56 per grades 9-12. County offices are anticipated to receive \$29 for grades K-3 and \$57 per grades 9-12. Allocations for pertussis are now included.

LEAs that do not opt to receive funding through the MBG might want to continue collecting data to submit for reimbursement through the mandated cost claim process. However, the budget does not include funding for mandated cost claims.

**Technology Infrastructure:** \$100 million in one-time Prop. 98 funding is provided in 2015-16 to support additional investments in internet connectivity and infrastructure. This builds on the \$26.7 million provided in 2014-15. The purpose is to assist LEAs most in need of help with securing required internet connectivity and infrastructure to implement the new computer adaptive tests administered.

## Child Care and State Preschool

For 2015-16, the January budget proposal includes:

- Full-Day Preschool Slots – An increase of \$14.8 million Prop. 98 and an increase of \$18.8 million non-Prop. 98 to support 4,000 State Preschool slots with full-day wraparound care. These slots were part of the final 2014-15 Budget Act.
- Cost-of-Living Adjustment (COLA) – An increase of \$9.2 million Prop. 98 general fund and \$12.3 million non-Prop. 98 general fund to reflect a statutory COLA of 1.58 percent for capped child care programs. COLA was suspended for these programs from 2008-09 through 2014-15.
- Stage 2 – A decrease of \$11.6 million non-Prop. 98 general fund in 2015-16 to reflect a decrease in the number of CalWORKs Stage 2 cases and an increase in the cost per case. Total base cost for Stage 2 is \$348.6 million.

- Stage 3 – An increase of \$38.6 million non-Prop. 98 general fund in 2015-16 to reflect an increase in the number of CalWORKs Stage 3 cases and an increase in the cost per case. Total base cost for Stage 3 is \$263.5 million.
- An increase of \$33.5 million has been made to the non-Prop. 98 general fund to reflect a full-year update of the Regional Market Rate (RMR). This increase reflects the full year update but does not change the RMR rate.
- Child Care and Development Funds – A net decrease of \$14.9 million federal funds in 2015-16 to reflect a reduction of available carryover funding. Total federal funding is \$565.2 million.

## ***Interest Yield Projections***

The Orange County Treasurer-Tax Collector forecasts a gross yield for fiscal year 2014-15 of 0.49%. We recommend that school districts estimate interest earnings at 0.49% for the current year and the two subsequent years.

## ***Medi-Cal Administrative Activities***

On October 7, 2014, the California Department of Health Care Services (DHCS) received a settlement letter from the federal Centers for Medicare and Medicaid (CMS) that provided the terms for the end of the DHCS Reasonableness Test Criteria comprehensive review process. The letter also provided for payment of the deferred claims. Quarterly claim invoices that are less than \$25,000 each are being paid in full; larger invoices will have a percentage paid at this time, once all of the smaller invoices have been paid. Reconciliation will occur once the Random Moment Time Sampling (RMTS) process is implemented and there are a sufficient number of quarters with which to back cast. This methodology will be implemented for all deferred periods, paid and unpaid. Therefore, DHCS must submit an RMTS back casting methodology to CMS that reflects the use of four quarters of statewide RMTS data beginning with state fiscal year 2014-15 Q3 and Q4 (January 1, 2015 through June 30, 2015) and state fiscal year 2015-16 Q2 and Q3 (October 1, 2015 through March 31, 2016).

Initial payments for the smaller invoice amounts have begun to flow from DHCS. The LEA MAA Coordinator or the Regional LEC Coordinator can provide further information regarding the new RMTS survey methodology that began January 1, 2015.

## ***Audit Requirements***

New or amended audit procedures adopted for 2014-15 include the following:

- **Local Control and Accountability Plan** – New procedure to verify that the LEA made expenditures aligned with a properly adopted LCAP.

- **K-3 GSA** – New procedure to verify the LEA has made adequate progress toward the 24:1 K-3 average class size.
- **Maintenance of Effort** – New procedures to test for compliance with MOE requirements for ROC/P, Adult Education, and Transportation.
- **Common Core** – Modification of the 2013-14 procedure to verify the required final expenditure report was submitted, and to disallow expenditures if the LEA did not comply with plan adoption requirements and/or used the funds for disallowed categories of expense.

Details on these procedures can be found in the current Audit Guide booklet at <http://eaap.ca.gov/wp-content/uploads/2014/09/posted-on-website-audit-guide-excel-2014-15-july-3-20145.xlsx> .

## Retirement

### CalPERS

CalPERS Actual and Projected Rates						
2014-15 Actual	2015-16 Projected	2016-17 Projected	2017-18 Projected	2018-19 Projected	2019-20 Projected	2020-21 Projected
11.771%	12.6%	15.0%	16.6%	18.2%	19.9%	20.4%

### CalSTRS

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

## **Summary**

The Governor's Budget proposal significantly increases funding to education in 2015-16 and continues to demonstrate his commitment to funding the LCFF. There is a substantial amount of one time funding proposed. Most notably, his proposal is just that, a proposal. The Legislative process will carry out over the next few months and there will most likely be changes in the details of the proposal before the State Budget is adopted in June. Overall it appears California schools will be in a much improved position to better serve students in the fall of 2015.

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

**EXAMPLE 1:** “A one-time payment off the salary schedule of \$500.00 for employees .5 FTE or more (\$250 for employees less than .5 FTE) for those employees in paid status as of October 12, 2014.”  
[Ratified October 12, 2014]

### Employment Agreement Contents

1. Was the written agreement adopted by the governing board in a public meeting? Yes.
2. Who will receive payment? Employees in paid status on 10/12/14
3. How is payment amount determined? \$500 for .5+ FTE, \$250 for >.5 FTE
4. When is the amount earned and payable? Presumed to be October 2014, based on eligibility criteria and ratification date.

### CalSTRS

#### Reporting

- Earned Service Period: **October 2014**
- Non-Creditable for PEPRAs Members (2% at 62), coded on payroll as 99-9-9.
- Creditable to DBS for Classic Members (2% at 60), coded on payroll as 71-0-6 with October service period dates (10/1/14 – 10/31/14).

#### Penalties & Interest

- To avoid penalties and interest, payment must be included on the October STRS report.
- The October STRS report includes the following payrolls: **October End of Month or November 10<sup>th</sup>**.
- November 10<sup>th</sup> becomes the latest this off-schedule payment can be paid without triggering P&I.

### CalPERS

#### Reporting

- Earned Service Period: **October 2014**
- Non-Creditable for PEPRAs Members (2% at 62), coded on payroll as 99-9-9.
- Creditable for Classic Members (2% at 55), coded on payroll as 08-X-6 with October service period dates (10/1/14 – 10/31/14).

**EXAMPLE 2:** “A one-time payment off the salary schedule of \$500.00 for employees .5 FTE or more (\$250 for employees less than .5 FTE) for those employees in paid status as of October 12, 2014 **will be paid in November 2014 pay period.**” [Ratified October 12, 2014]

### Employment Agreement Contents

1. Was the written agreement adopted by the governing board in a public meeting? Yes.
2. Who will receive payment? Employees in paid status on 10/12/14
3. How is payment amount determined? \$500 for .5+ FTE, \$250 for >.5 FTE
4. When is the amount earned and payable? November 2014, as specified.

### CalSTRS

#### Reporting

- Earned Service Period: **November 2014**
- Non-Creditable for PEPRA Members (2% at 62), coded on payroll as 99-9-9.
- Creditable to DBS for Classic Members (2% at 60), coded on payroll as 71-0-6 with November service period dates (11/1/14 – 11/30/14).

#### Penalties & Interest

- To avoid penalties and interest must be included on the November STRS report.
- The November STRS report includes the following payrolls: **November End of Month or December 10<sup>th</sup>**.
- December 10<sup>th</sup> becomes the latest this off-schedule payment can be paid without triggering P&I.
- In addition, the payment cannot be reported prior to November, so the 11/17 SPECM payroll is the earliest payroll on which it can be processed.

### CalPERS

#### Reporting

- Earned Service Period: **November 2014**
- Non-Creditable for PEPRA Members (2% at 62), coded on payroll as 99-9-9.
- Creditable for Classic Members (2% at 55), coded on payroll as 08-X-6 with November service period dates (11/1/14 – 11/30/14).

**EXAMPLE 3:** “Unit members in active status on January 10<sup>th</sup>, 2015 will be entitled to receive a one-time off salary schedule payment equal to 1% of their annual contract salary, payable in the January 2015 pay period.” [Ratified November 26, 2013]

### Employment Agreement Contents

1. Was the written agreement adopted by the governing board in a public meeting? Yes.
2. Who will receive payment? Employees in active status on 1/10/15
3. How is payment amount determined? 1% of employee’s annual contract salary
4. When is the amount earned and payable? January 2015, as specified.

### CalSTRS

#### Reporting

- Earned Service Period: **January 2015**
- Non-Creditable for PEPRA Members (2% at 62), coded on payroll as 99-9-9.
- Creditable to DBS for Classic Members (2% at 60), coded on payroll as 71-0-6 with January service period dates (1/1/15 – 1/31/15).

#### Penalties & Interest

- To avoid penalties and interest must be included on the January STRS report.
- The January STRS report includes the following payrolls: **January End of Month or February 10<sup>th</sup>.**
- February 10<sup>th</sup> becomes the latest this off-schedule payment can be paid without triggering P&I.
- In addition, the payment cannot be reported prior to January, so the 1/16 SPECM payroll is the earliest payroll on which it can be processed.

### CalPERS

#### Reporting

- Earned Service Period: **January 2015**
- Non-Creditable for PEPRA Members (2% at 62), coded on payroll as 99-9-9.
- Creditable for Classic Members (2% at 55), coded on payroll as 08-X-6 with January service period dates (1/1/15 – 1/31/15).

**EXAMPLE 4:** “2014-2015 School Year: For active unit members a non-precedent setting, one-time, lump sum, off-schedule payment of 2% (prior to any ongoing salary adjustments) of existing salary schedule, paid by February 2015.” [Ratified November 26, 2013]

### Employment Agreement Contents

1. Was the written agreement adopted by the governing board in a public meeting? Yes.
2. Who will receive payment? Presumed to be any unit member active during the 2014-2015 school year.
3. How is payment amount determined? 2% of employee’s annual contract salary (presumed to use 2014-2015 salary schedules, not the salary schedule in existence at the time of ratification).
4. When is the amount earned and payable? Presumed to be ratable over all months of service in 2014-2015, until paid. (e.g. September 1, 2014 – January 31, 2015).

### CalSTRS

#### Reporting

- Earned Service Period: **September 1, 2014 – January 31, 2015** (if employee starts in September and receives payment by February 10<sup>th</sup>, 2015).
- Non-Creditable for PEPRAs Members (2% at 62), coded on payroll as 99-9-9.
- Creditable to DBS for Classic Members (2% at 60), coded on payroll as 71-0-6 with service period dates (9/1/14 – 1/31/15).

#### Penalties & Interest

- Only the portion of the payment allocated to the January service period will be excluded from the penalties and interest assessment if included on the January STRS report (paid by 2/10/15).
- There will be penalties and interest assessed on each of the service periods on a ratable basis from the point at which each month’s STRS report and contributions were due. (i.e. September portion is 4 months late, October is 3 months late, etc.)

### CalPERS

#### Reporting

- Earned Service Periods: **September 2014, October 2014, November 2014, December 2014, and January 2015** (CalPERS does not allow for date range reporting of special compensation – earnings are to be reported as earned, on a month-by-month basis).
- Non-Creditable for PEPRAs Members (2% at 62), coded on payroll as 99-9-9.
- Creditable for Classic Members (2% at 55), coded on payroll as 08-X-6 with separate pay lines for September 2014, October 2014, November 2014, December 2014, and January 2015 service period dates.4404