



May 27, 2016

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Subject: 2016-17 Budget Advisory – May Revision

This budget advisory is intended to provide information and guidance to assist local educational agencies (LEAs) in preparing 2016-17 adopted budgets for your districts.

It contains information related to the following items:

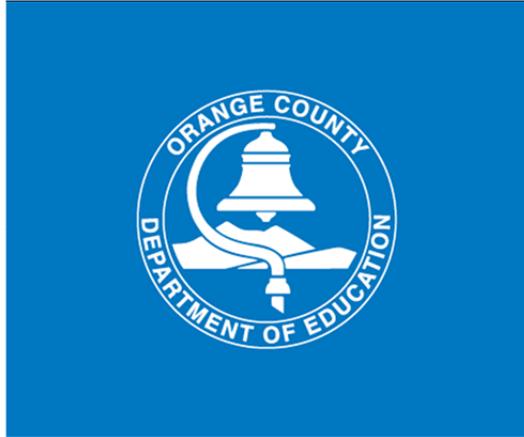
- 2016-17 May Revision
- Key guidance for 2016-17 Adopted Budget development
- Local Control Funding Formula (LCFF)
- Funding outside of the LCFF
- Significant changes since the 2016-17 January Budget Proposal

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

Enclosures

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2016-17 Budget Advisory – May Revision

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Introduction

This budget advisory is intended to provide information and guidance to assist LEAs in developing 2016-17 adopted budgets and their multiyear projections (MYP). It contains information related to the Governor's May Revision Budget Proposal. LEAs should note this budget advisory primarily addresses changes from the Governor's January Budget Proposal as well as items considered important for LEAs to include in their budgets and MYP.

Significant Changes since January Governor's 2016-17 Budget Proposal

Summary of May Revision

In the May Revision, the Governor continues to prioritize funding for education with total funding of \$87.6 billion (\$51.5 billion General Fund and \$36.1 billion other funds).

Proposition 98 (Prop 98)

The minimum guarantee for 2016-17 is projected to be \$71.9 billion. The maintenance factor, anticipated to be repaid in full by the end of 2015-16 in January, is now projected to be \$155 million for 2015-16 and \$908 million for 2016-17. The Department of Finance has indicated that 2016-17 will be a Test 3 year.

Cost of Living Adjustment (COLA)

The May Revision includes a decrease from 0.47% to 0.00% in cost of living adjustments for both LCFF and categorical program funds.

LCFF

The Local Control Funding Formula (LCFF) gap funding was increased by an additional \$154 million to a total of \$2.98 billion with the May Revision. The gap percentage for 2016-17 is now estimated at 54.84% and LCFF implementation through 2016-17 is now projected to be 95.7% complete.

One-Time Discretionary Funding

The May Revision proposes an additional \$134.8 million of one-time discretionary funding, for a total of \$1.4 billion. Although this funding is discretionary, the Governor suggests it be targeted for the implementation of the state-adopted standards, professional development, teacher induction for beginning teachers, infrastructure and deferred maintenance, instructional materials and technology. All of the funds will offset any applicable mandate reimbursement claims.

Early Education

The Governor's January Budget Proposal consolidated state-subsidized early learning programs (State Preschool, Transitional Kindergarten) into a \$1.6 billion Early Education Block Grant beginning with the 2017-18 year. Throughout the spring the Administration received feedback through various stakeholder meetings and received more than 200 responses on the proposal. This feedback in part led to a detailed implementation plan that is described in depth on page 19. In addition State Preschool was decreased by \$4.3 million from the Governor's January proposal due to the decrease in COLA adjustment to 0%.

Teacher Workforce

The May Revision proposes \$10 million in one-time non-Prop. 98 General Fund investment for grants to California postsecondary institutions to improve or develop four-year integrated teacher credential programs. The Commission on Teacher Credentialing will administer competitive grants up to \$250,000. In addition, \$2.5 million in one-time Proposition 98 funding is earmarked for the California Center on Teaching Careers, a program established to strengthen statewide recruitment of qualified and capable individuals into the teaching profession.

Emergency Repair Revolving Loan Program

The May Revision includes a proposal for \$100 million in one-time Prop. 98 funding to establish a bridge loan program. The loan program will provide temporary funding to address imminent health and safety issues. Loan funds will be disbursed after a California Department of Education (CDE) expedited review and approval process. Loans must be repaid within 20 years and will include a low interest rate; if the loan is repaid within one year, no interest will be charged.

Child Care

The May Revision provides additional clarification on the January proposal for subsidized child care to transition away from the use of contracts and moves toward a voucher system in the next five years. The proposal streamlines the process for single-parent verification and notices to families regarding changes in care.

Stage 2 and 3 funding are decreased by \$884,000 and \$42.3 million respectively in non-Prop. 98 spending. The funding reductions are due to reductions in cost per case and reduced caseloads. Other funding changes include a net increase of \$55.6 million to child care and development funds, and a net decrease of \$3.5 million to capped non-CalWORKs programs. In addition provisional language in the May Revision directs the CDE to update its Child Care and Development Block Grant State Plan for quality expenditures to prioritize quality rating and improvement system activities.

Proposition 39

The May Revision increases the amount of energy efficiency funds available to K-12 school districts by \$33.3 million to \$398.8 million for the 2016-17 year.

Planning Factors for 2016-17 and MYPs

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

Planning Factor	Fiscal Year		
	2016-17	2017-18	2018-19
COLA (Department of Finance - DOF)	0.00%	1.11%	2.42%
LCFF Gap Funding Percentage (DOF)	54.84%	73.96%	41.22%
STRS Employer Statutory Rates	12.58%	14.43%	16.28%
PERS Employer Projected Rates	13.888%	15.50%	17.10%
Lottery – unrestricted per ADA	\$140	\$140	\$140
Lottery – Prop. 20 per ADA	\$41	\$41	\$41
Mandated Cost per ADA or One-Time Allocations	\$237	\$0	\$0
Mandate Block Grant for Districts – K-8 per ADA	\$28.42	\$28.42	\$28.42
Mandate Block Grant for Districts – 9-12 per ADA	\$56	\$56	\$56
Mandate Block Grant for Charters – K-8 per ADA	\$14.21	\$14.21	\$14.21
Mandate Block Grant for Charters – 9-12 per ADA	\$42	\$42	\$42
State Preschool Part-Day Daily Reimbursement Rate	\$23.87	\$23.87	\$23.87
State Preschool Full-Day Daily Reimbursement Rate	\$38.53	\$38.53	\$38.53
General Child Care Daily Reimbursement Rate	\$38.29	\$38.29	\$38.29
Routine Restricted Maintenance Account (Note: if the school facility bond proposition on the November 2016 ballot passes, the RRMA requirement will revert to 3% for all LEAs)	Lesser of: 3% or 2014-15 amount	Greater of: Lesser of 3% or 2014-15 amount or 2%	At Least: 3%

Key Guidance for Budget Adoption

Reserves/Reserve Cap

Our office continues to reinforce the need for reserves over the minimum reserve requirements.

LEAs should maintain minimum reserve levels sufficient to protect educational programs from severe disruption in an economic downturn. The typical 2% to 3% reserve is insufficient to cover operating expenses. Many LEAs have established policies calling for higher than minimum reserves, recognizing their duty to maintain fiscal solvency. The adequacy of a given reserve level should be assessed based on the LEA's own specific circumstances, and numerous reasonable models are available for consideration.

Based on the May Revision, the trigger conditions under SB 858 will not be met in 2015-2016 and the reserve cap will not be implemented. However, public hearing requirements imposed by SB 858 are in effect. If proper public hearing requirements regarding reserves are not followed, our office may have to conditionally approve or disapprove a district's 2016-17 budget.

Many districts have designated components of their fund balance to compensate for the programmed escalation of STRS/PERS employer costs in the multiyear projections and beyond. While this practice may provide some argument to justify keeping reserve levels at amounts well above the minimum, districts should be cautious in relying on fund balance to cover what are considered operational costs; e.g., STRS/PERS employer contributions.

Negotiations

As the economy slows, the largest increases in LCFF funding year over year are behind us. Under the LCFF, the process and substance of bargaining with employee groups has changed drastically. LEAs considering multiyear contracts should maintain flexibility through contingency language or other means that protect them from cost increases beyond their control.

LEAs are cautioned from addressing ongoing expenditure needs and priorities with one-time funds simply because funding appears to be available for bargaining

Prop. 98 / Revenues

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
May 2015	115.0	68.4	19.0	49.4	65.9	2.1
Adopted	115.0	68.4	19.0	49.4	65.9	2.1
Jan. 2016	117.5	69.2	19.2	50.0	66.1	5.2
May 2016	117.0	69.1	19.3	49.8	65.8	4.8

(all numbers in billions)

Fiscal Year 2016-17	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. 2016	\$120.6	\$71.6	\$20.6	\$51.0	\$71.6	\$3.2
May 2016	120.1	71.9	20.8	51.1	71.1	2.8

(all numbers in billions)

The Governor's May Revision to his proposed 2016-17 budget estimates \$626 million in new revenues to K-12 above what was provided for in the January proposed budget. Approximately \$338 million is provided, on a one-time basis, and \$288 million is provided in ongoing funding in 2016-17 above the January proposed levels.

While projected revenues declined overall in the latest budget (2015-16) projections, K-12 was largely insulated from the changes due to Proposition 98 being in a Test 2 year. In Test 2, the calculation is driven by change in per capita income rather than change in general fund revenues. As such, the 2015-16 Proposition 98 level remains relatively stable despite less optimistic general fund revenue projections.

Test 3 is in effect for Proposition 98 in 2016-17, which means the calculation will be very sensitive to any upward or downward revisions in 2016-17 state revenue. This results in some downside revenue risk that has been absent in previous years' planning.

Local Control Funding Formula

Full implementation of the LCFF is still anticipated to be completed by 2020-21 or possibly before that date depending on economic factors. While the economy has improved quickly over the last five years, both the Governor and the Department of Finance continue to remind educational entities that a recession is probable and would negatively affect school funding.

The Governor made some minor changes to his January Budget Proposal in the May Revision. The figures below have been updated to reflect these changes as outlined in the most recent FCMAT LCFF Calculator.

It is recommended that LEAs use the LCFF Calculator located on the FCMAT website at <http://fcmat.org/local-control-funding-formula-resources/>. Additional information about LCFF can be found at <http://www.cde.ca.gov/fg/aa/lc/>.

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

FCMAT has updated annual COLA and gap funding figures based on the Governor’s May Revision. These figures are found below and at: <http://fcmat.org/local-control-funding-formula-resources/>.

While the annual gap-closure percentage estimates may seem large, it is important to note that the remaining gap to fill has shrunk significantly. This means that large gap-closure percentages may not represent large dollar increases.

	Actual 2016-17	Estimate 2017-18	Estimate 2018-19	Estimate 2019-20
LCFF Gap Funding Percentage	54.84%	73.96%	41.22%	75.16%
Annual COLA	0.00%	1.11%	2.42%	2.67%

Local Control Accountability Plan

As the Local Control Accountability Plan (LCAP) evolves each year, stakeholders are requesting LEAs to provide more transparency in describing their educational programs and how they are spending funds in meeting their goals in the LCAP. LEAs are encouraged to include an executive summary with the LCAP. The summary provides an opportunity for LEAs to describe the process for stakeholder engagement; highlight specific goals or actions that are expected to have an impact on the outcomes of students, and discuss what more is being done for low-income students, foster youth, and English learners. It is recommended LEAs ensure accuracy between their budget document and the expenditures identified in the LCAP.

Property Taxes

At this time, school districts are advised to use 2015-16 P-2 local property tax estimates when preparing local property tax budgets for 2016-17, exclusive of any one-time redevelopment funds received in 2015-16.

One-Time Funding

Mandate Reimbursement Payments

The January Budget proposed \$1.28 billion (\$214 per ADA) in discretionary one-time Proposition 98 mandate repayments for school districts, charter schools, and county offices of education. The May Revision provides an additional \$134.752 million in funding identified through a recalculation of Proposition 98 for a total of \$1.416 billion (estimated at between \$235 (CDE) and \$237 (DOF) per ADA). The Governor identifies one-time investments in professional development, teacher induction to beginning teachers, and instructional materials and technology as likely expenditures that LEAs will make with these funds. All of the funds provided will offset any applicable mandate reimbursement claims for LEAs, which is intended to be consistent with the approach initiated in the 2014 Budget Act where one-time funding was provided for both general purpose activities and mandates reimbursement.

It is important to understand that these funds are based on the recalculation of the Proposition 98 guarantee for current (not budget) year. Hence, they cannot be expected to be consistent or even recurring and they should not be used for ongoing expenses.

Teacher Workforce Development

The May Revision proposes two augmentations to address the teacher shortage in California:

- \$10 million in one-time General Fund (non-Prop. 98) funding is proposed for Integrated Teacher Preparation Grants to California postsecondary institutions to improve upon or develop four-year undergraduate teacher credential programs. Postsecondary institutions would be selected by June 30, 2018 to

receive grants of up to \$250,000 to improve existing or create new integrated programs. Preference would be given to proposals that include partnerships with local community colleges and K-12 local educational agencies. The Commission on Teacher Credentialing would administer the competitive grant program, with the funds primarily provided for release time for faculty, course creation, summer scholarships for students, and program coordinators. Both public and private universities would be eligible to compete for the grants.

- \$2.5 million in one-time Proposition 98 funding for the California Center on Teaching Careers. Funds is proposed for use to “strengthen statewide recruitment” through a competitive multiyear grant to be administered by the Commission on Teacher Credentialing and awarded to a local educational agency to administer the center. The LEA would engage in a statewide effort to develop awareness of the teacher profession, inform prospective teachers of the requirements of becoming a teacher, and encourage teachers to enter the workforce through public service announcements, employment referrals, the distribution of recruitment publications and information on financial aid and the availability of teacher preparation programs, and outreach to high school students, college students, out-of-state teachers, and current credential holders.

Emergency Repair Revolving Loan Program

The May Revision proposes \$100 million in one-time Proposition 98 funding to establish a “bridge loan program to provide temporary funding to schools with insufficient resources to expeditiously address imminent health and safety issues.” The administration notes that these funds are proposed to address “emergency facilities needs - structures or systems that are in a condition that poses a threat to the health and safety of pupils and staff while at school.” As a condition of participation, a school would be required to provide independent verification that the school site has been deemed unsuitable for occupation, and the school would have to self-certify that no alternative facilities are available to educate the displaced students. Subject to an expedited review and approval process by the Department of Education, loan funds “could be released in a matter of days to address the necessary repairs and ensure students can quickly return to the classroom.” After funds are released, schools would have the option of repaying the loans in full within one year of disbursement without interest, or by structuring a long-term, low-interest repayment plan not to exceed 20 years.

Education Protection Account

Distribution of the temporary taxes in the Proposition 30 Education Protection Account (EPA) began in 2012-13 and is slated to continue through the 2018-19 fiscal year. EPA revenues are projected to be \$6.715 billion for 2015-16 and \$7.076 billion for 2016-17. 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>).

Special Circumstances

Routine Restricted Maintenance Account

A key component of the school facilities bond LEAs should be aware of:

Should a school facility bond pass on the November ballot all flexibility under this account will end and all school districts and county offices will be required to budget the full 3% for RRMA.

Home to School Transportation

The maintenance of effort for all districts receiving transportation funds does not expire. For home to school Special Education transportation and bus replacement the transportation funds are received as an add-on to LCFF. The level of expenditures must be at least equal to the lesser of the amount spent in 2012-13 or the amount of the transportation revenue (home to school, special education and bus replacement) received in 2012-13.

Foster Youth Services

The state Foster Youth Services (FYS) program provides support services for foster children who suffer the effects of displacement from family and school and who often experience multiple placements in foster care. County superintendents retain the responsibility to coordinate services for foster youth among child welfare agencies, schools, juvenile court and probation.

The enactment of Assembly Bill (AB) 854 (Weber) restructured the FYS program from a direct services program to a grant program designed to enhance collaboration of services and build the capacity of LEAs. Now called the Foster Youth Services Coordinating (FYSC) program, the program structure is intended to align more closely with that of the Local Control Funding Formula. The new program requirements necessitate ongoing collaboration between child welfare, probation, LEAs and other organizations to determine proper placement of foster youth, to build capacity of coordinating programs, and to coordinate local planning in the development of the Local Control and Accountability Plan (LCAP).

The Department of Finance set county office funding levels in 2015-16 at the same level they received in 2014-15 as a “hold harmless,” which was based on an allocation formula of 50% of the percentage of foster youth in each county and the other 50% on the number of districts in each county.

Commencing with the 2016-17 fiscal year, each county office or consortium of county offices will receive a base grant of \$75,000 if at least one foster youth was served in the prior fiscal year. The remaining funds after base grants are awarded will be allocated 70% based on the number of pupils in foster youth care in the county and 30% based on the number of districts in the county. The Governor’s Budget for 2016-17 includes a total of \$25,379,000 for funding FYSC; allocations for each county have not yet been

calculated. The allocation formula may be revised annually based on approval by the Department of Finance and Superintendent of Public Instruction.

Districts should work closely with our office in determining any transitions in services from direct to coordinated.

Basic Aid

As part of the enacted 2015-16 state budget, Education Code 42238.03(e) was amended to clarify that the minimum state aid (MSA) guarantee is intended to remain in effect indefinitely. Basic aid districts are also eligible to receive or compete for the various one-time funding sources proposed for the 2016-17 state budget. In addition, qualifying basic aid districts will receive Adult Education Block Grant funds.

Basic aid districts will be eligible for the additional one-time mandate discretionary funds, as well as participate in new Teacher Workforce Development competitive grant proposals, in the Governor's 2016-17 budget.

Those districts receiving funding under the Basic Aid District of Choice program should be cognizant of the fact that the funding will flow through 2017-18 (pursuant to EC 48315) unless the Legislature takes action to extend it.

Because calculated LCFF entitlements are growing rapidly due to significant gap funding, some districts may be transitioning out of basic aid status. Such districts will need to track the budgetary and cash flow implications of the transition. The guarantee of a minimum of \$200 per ADA from Education Protection Account (EPA) is dependent on basic aid status, and districts that transition out of basic aid will lose additional EPA revenue for every state dollar they receive as a state-funded LCFF district. In addition, under current law, districts that were basic aid in 2012-13, and that lose their basic aid status during transition to full implementation, will continue to have their MSA amount held to their 2012-13 fair share reduction amount.

As the fourth year under LCFF rolls out, all districts including basic aid districts need to put in place systems to implement LCAP actions, track data for the Annual Update and conduct ongoing stakeholder engagement to ensure successful implementation.

Charter Schools

The Governor's 2016-17 May Revision remains largely consistent with earlier proposals for state public education. Both charter schools and their authorizers should keep in mind that charter schools are exempt from a large portion of the statutory requirements imposed on traditional California school districts, but they must adhere to important provisions of the California Education Code centered around employment, facilities, safety, and LCFF funding (along with accountability through the LCAP).

Funding

In general, charter schools are apportioned funding through the same LCFF methodology and calculation used by traditional districts. This calculation applies the same base, grade span, supplemental and concentration grant requirements/amounts to average daily

attendance (ADA) as reported to CDE during official collection periods defined in the Education Code. Recognizing the operational, legal and governance differences between charter schools and traditional districts, this funding mechanism carries important caveats for:

- Non-classroom-based instruction programs, their teacher/student ratios, required funding pre-authorization and restrictions to enrollment.
- Unduplicated pupil percentages (English learners, students qualified for free or reduced priced meals, and/or foster youth), used in computing concentration grants to close related achievement gaps are limited to those of “similar school districts.” As such, they are capped, based on specific circumstances.

This also applies to newly opening charter schools where no prior ADA data exist.

Authorizing LEAs are required to transfer funding “in lieu of property taxes” to any associated charter school(s). The amounts of these transfers are based on the charter school’s average daily attendance, which may include students from other districts. A school district that initially denies a charter school petition, which is later approved on appeal, is still obligated to make these transfers.

LCFF and the LCAP

California charter schools are required to develop an LCAP, and update it annually, using the Local Control and Accountability Plan and Annual Update template adopted by the State Board of Education (SBE). The LCAP must align with the eight state priority areas that apply to the grade levels and/or program served by the charter. It must also align to the term of the charter’s budget, as submitted to its authorizer. Charter schools are required to hold a public hearing for stakeholder input prior to the adoption of the LCAP. The adoption must be held on a separate date from the public hearing.

Prop. 98 and Discretionary Funding

The Commission on State Mandates deemed charter schools largely ineligible for specific mandated cost reimbursement beginning in 2006, but charter schools may participate in mandated cost reimbursement block grants – at roughly half the rate of traditional districts – provided through allocation of Prop. 98 funding in the Governor's budget. While the May Revision signals additional funding in this area, exact plans are forthcoming.

These resources, along with the Governor’s special \$20 million allocation to offset the loss of previously available federal charter school funding, are one-time in nature and charter schools are cautioned not to rely on these funds in future years.

Cash Management

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

The State Controller's Office has posted estimated payment dates for K-12 principal apportionments, lottery apportionments, and Education Protection Account Proposition 30 apportionments through December 2016. The table below illustrates state apportionments for the period of June 2016 through December 2016.

Months	Principal Apportionment	Proposition 30 EPA	Lottery
June 2016	6/30/2016	6/24/2016	6/28/2016
July 2016	7/27/2016		
August 2016	8/29/2016		
September 2016	9/28/2016	9/23/2016	9/30/2016
October 2016	10/27/2016		
November 2016	11/28/2016		
December 2016	12/28/2016	12/23/2016	12/29/2016

Funding Outside of the LCFF

Early Education Block Grant

The Governor's May Revision outlines in more detail the shift to an Early Education Block Grant. The proposal includes elimination of the current Transitional Kindergarten (TK) program effective July 1, 2017. Beginning in the 2017-18 fiscal year, school districts will administer the Early Education Block Grant (EEBG) with support from county offices of education.

The EEBG prioritizes services to 4-year-olds who are homeless, foster youth, at risk of abuse or neglect, children with exceptional needs, non- or limited-English-speaking, or low income, as defined as either eligible for free or reduced priced meals or income-eligible for state child care programs.

Districts would be required to serve no fewer than the number of subsidized children served in the district through Transitional Kindergarten or State Preschool in the 2016-17 school year. The proposal allows school districts to contract with other entities meeting minimum quality requirements to provide pre-kindergarten programs. County offices of education would be the provider of pre-kindergarten program regional capacity building and technical assistance for both school districts and community-based organizations. County offices of education would also become the lead agencies for maintaining the regional quality rating and improvement system and creating priorities for local child care and pre-kindergarten program funding. For 2016-17, county offices of education would be allocated \$10 million one-time and \$10 million ongoing to begin implementation of the Early Education Block Grant.

This proposal would require county offices of education and school districts to create early learning plans, track access to subsidized pre-kindergarten programs in their

respective jurisdiction, set goals to increase access, set priorities for program outcomes, and align activities with priorities.

School districts would be allowed to create a family fee schedule to serve additional children, but prohibits charging fees to families with children meeting the definition of low-income or at-risk. Districts may also serve additional children if all prioritized children have been served.

For funding, the proposal includes a three-year hold harmless, based on 2016-17, of both school districts and local State Preschool funding to school districts, with the requirement that schools may not lose more than 5% of funding per year after the hold harmless expires, and only if due to a reduction in school district average daily attendance (with some exceptions). Per-pupil funding amount would be \$6,200 per year, adjusted for COLA. Currently, the State Preschool Program receives \$4,200 for part-day per child and \$9,600 for full-day per child. The Transitional Kindergarten Program receives an average of \$8,500 per child. Any additional future funding for the EEBG would be allocated based on unmet need; specifically, the amount of funding a district receives compared to its estimated number of unserved eligible children.

Child Care

The Governor's Budget proposed requiring the Department of Education to develop a plan for subsidized child care that transitions away from the use of contracts toward a voucher system over the next five years. The May Revision clarifies that the plan should be a streamlined child care system that consolidates the number of child care programs, provides a single reimbursement rate structure (rather than the flat rate and market rate models the state currently uses), improves provider payment processes, creates one statewide set of minimum program quality standards, is more efficient for families to access, and can be implemented with existing resources.

Significant Adjustments

- Stage 2 – A decrease of \$844,000 non-Proposition 98 General Fund in 2016-17 to reflect a lower estimated increase in the cost per case. Total Stage 2 costs are \$421.4 million.
- Stage 3 – A decrease of \$42.3 million non-Proposition 98 General Fund in 2016-17 to reflect a lower estimated increase in the cost per case and reduced caseload. Total Stage 3 costs are \$273.6 million.
- Child Care and Development Funds – A net increase of \$55.6 million federal funds in 2016-17 to reflect an increase to the base grant amount and an increase in one-time funds carried over from prior years. Of this increase, \$9.2 million is allocated for child care quality activities in accordance with the requirements of the federal Child Care and Development Block Grant Act of 2014. Total ongoing and one-time federal funding is \$648.9 million.

- Capped Non-CalWORKs Programs – A net decrease of \$3.5 million non-Proposition 98 General Fund to reflect a change in the cost of living adjustment from 0.47% at the Governor’s Budget to 0.00% at the May Revision.
- Child Care Quality Activities – Provisional language in the May Revision directs the Department of Education to update its Child Care and Development Block Grant State Plan for quality expenditures to prioritize Quality Rating and Improvement System activities.

Educator Effectiveness

The funding will be available to spend over the next three fiscal years (2015-16, 2016-17, and 2017-18). As a condition of receiving the funds the LEA is required to develop a plan for how the funds will be spent. If the district expends funds in 2015-16, the plan shall be explained in a public meeting of the governing board before it is adopted in a subsequent public meeting prior to June 30, 2016.

The funding expenditures will be subject to annual audit. Auditors will verify whether the LEA developed, explained and adopted a plan and are tracking FTEs and expenditures in the format of the final expenditure report to be submitted to CDE. If the LEA is found not in compliance, a finding will be reported with recommendations to comply with requirements.

On or before July 1, 2018, an LEA will submit a detailed expenditure report. The final expenditure report template can be found on CDE’s website:

<http://www.cde.ca.gov/fg/aa/ca/educatoreffectiveness.asp>

Adult Education Block Grant

The 2016-17 May Revision proposes no funding change to the Adult Education Block Grant. The budget trailer bill proposes a requirement for regional consortia to increase stakeholder input, specifically to “consider input from students, teachers, community college faculty, principals, administrators, classified staff, and the local bargaining units of both school districts and community college districts before making final decisions.”

Special Education

The 0% COLA will mean no increased funding for Special Education base or preschool programs for 2016-17. The Governor has called for another study regarding Special Education financing. The Public Policy Institute of California will release its findings in the fall of 2016.

For 2015-16, the Governor proposes an increase of up to \$28.5 million for a Special Education property tax adjustment. This Proposition 98 General Fund funding would be provided on a contingency basis, for an anticipated shortfall in redevelopment agency property taxes for Special Education Local Plan Areas. Related language provides a mechanism to distribute up to \$28.5 million based on a determination of property taxes

reported for Special Education Local Plan Areas as of the second principal apportionment certification in early June.

Federal Funding

For budgeting purposes, the following multi-year assumptions are recommended:

- **2015-16:** No change for federal education funding. Impact aid is level funded. No Budget Control Act sequestration reduction.
- **2016-17:** Small increases in funding for the Individuals with Disabilities Education Act (approximately \$40 million statewide) and Title I (approximately \$50 million statewide), level funding for Career and Technical Education. No Budget Control Act sequestration cuts.
- **Fiscal Year 2017:** To date, Congress has not been able to pass a 2017 budget resolution. House and Senate Appropriations Committees have started work on the fiscal year 2017 appropriations bills based on the Bipartisan Budget Act higher fiscal year 2017 budget caps for defense and non-defense discretionary programs including education. The higher FY 2017 budget caps provide additional funding options to the Appropriations Committees without sequestration cuts.

It is uncertain if Congress will be able to complete the fiscal year 2017 appropriations bills. If that is the case a continuing resolution may be necessary to fund federal agencies including education.

Interest Yield Projections

The Orange County Treasurer-Tax Collector's current year-to-date gross yield for fiscal year 2015-16 is 0.64% and the current net yield is 0.57%. The Treasurer forecasts a gross yield of 0.70% and a net yield of 0.63% for 2015-16. The forecasted net yield for 2016-17 is expected to be 0.77% based on current low interest rates. We recommend that school districts estimate net interest earnings at 0.63% for 2015-16 and at 0.77% for subsequent fiscal years.

Career Technical Education

The California Career Technical Incentive Grant Program (CTEIG) implemented in 2015-16 is intended to encourage and maintain the delivery of career technical programs during implementation of the LCFF. To receive funding, the grant proposals must ensure "the delivery and sustainability of high quality Career Technical Education programs" that meet 10 criteria, including curriculum and instruction aligned with California CTE standards; a cohesive sequence of CTE courses that enable pupils to transition to postsecondary education programs that lead to a career pathway or attaining employment upon graduation from high school; qualified teachers and faculty, and data collection that allows for program evaluation.

In effort to ensure CTE success, Career Technical Education Incentive Grant Technical Assistance (CTEIGTA) contracts with county offices were established to provide technical assistance and monitoring of CTEIG grantees. Specifically, with guidance and assistance from the Career and College Transition Division of the California Department of Education, each contracted county office of education will be required to provide technical assistance, curriculum, professional development, and monitoring/documentation/reporting services to all CTEIG grant recipients (school districts, county offices of education, joint powers authorities and charter schools) by region. The COEs contracted for regional CTEIGTA are Butte, Sacramento, Napa, Fresno, Santa Barbara, Los Angeles, and San Bernardino.

Proposition 39 – California Clean Energy Jobs Act

The Governor’s budget proposes \$398.8 million for 2016-17 for districts and charters, an increase of \$33.3 million.

All LEA facilities, including leased facilities, are eligible. In addition to classrooms, other school building areas such as auditoriums, multipurpose rooms, gymnasiums, cafeterias, kitchens, pools, and special purpose areas (school/district office, library, media center, and computer and science labs) can be considered for energy efficiency measures and clean energy installations.

Dates for the proposed 2016-17 application are to be determined. Draft guidelines can be accessed at the website listed below.

Schedule:

Program Fiscal Years	2013-14 through 2017-18
Two fiscal year combined funding award requests	September 1 (annually)
Award calculation completed by CDE	October 30 (annually)
SSPI begins allocating awards for approved multiple-year energy expenditure plans	January (annually)
LEAs project completion reporting	Ongoing
LEAs expenditure reports to Citizens Oversight Board and Energy Commission	October 1 (annually beginning 2015)
LEAs final encumbrance date	June 30, 2018
Final date all projects must be complete	June 30, 2020
LEAs final project reporting date	June 30, 2021

For additional information and a list of LEA funding please visit:
<http://energy.ca.gov/efficiency/proposition39/>.

Audit Requirements - May 2016

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

At its February 2016 meeting, the EAAP directed staff to begin the regular rulemaking process leading to eventual adoption, following public comment, of amendments to the 2015-16 Audit Guide to address legislative changes in the conditions of apportionment of school funding. The updated Audit Guide booklet is available at www.eaap.ca.gov.

The proposed supplemental 2015-16 Audit Guide includes the following changes:

- Section R - Educator Effectiveness adds audit steps to address new legislation that provided funding for teacher effectiveness, subject to specific requirements of the LEAs (Assembly Bill 104, Statutes of 2015, and Senate Bill 103, Statutes of 2015).
- Section U - Proper Expenditure of Education Protection Account Funds is revised to make a technical adjustment to remove the word "disbursed" to make the audit step a determination of whether funds have been properly expended.
- Section W - Unduplicated Local Control Funding Formula Pupil Counts is revised to exclude any transitional kindergarten student who had their 5th birthday after Dec 2. New legislation allows enrollment in TK prior to a child's 5th birthday; however, the child will not generate average daily attendance or be included in the unduplicated pupil count until the child is 5 (Assembly Bill 104, Statutes of 2015). Further, a technical correction is made to exclude juvenile court schools from audit testing, as all juvenile court school students are deemed eligible for the supplemental and concentration grants provided for targeted disadvantaged students.
- Section Z - Immunizations is revised to exclude independent study and special education pupils from the audit testing for compliance with vaccine requirements (Senate Bill 277, Statutes of 2015).

At its March 2016 meeting, the EAAP adopted a set of emergency regulations to amend the 2016-17 Audit Guide. These changes will be effective July 1, 2016 for the annual 2016-17 fiscal year audit. The changes to the 2016-17 Audit Guide are as follows:

- Section R - Educator Effectiveness is amended to add specific years, 2015-16 and 2016-17, to the directive that auditors confirm whether the LEA developed a plan for Educator Effectiveness expenditures, whereas previously the step was merely to determine whether the LEA had adopted a plan.

- Section W - Unduplicated Local Control Funding Formula Pupil Counts is amended to authorize auditors to select another student for a representative sample to replace selected students who have transferred to another LEA, in lieu of obtaining the needed information from the new LEA.
- Section Z - Immunizations is amended to refer to current medical exemptions and personal beliefs exemptions filed before January 1, 2016, from measles testing; and to delete the personal beliefs exemption as to the Tdap vaccination, in accordance with SB 277.

The updated 2015-16 Audit Guide booklet is available at www.eaap.ca.gov. The 2016-17 Audit Guide is not posted on the website yet.

Summary

This budget advisory serves to provide data and guidance to LEAs for fiscal planning and to develop their 2016-17 budget and MYP. The information provided for fiscal year 2016-17 and beyond includes the latest known proposals and projections to assist with multiyear planning. As each LEA has unique funding and program attributes and needs, it remains essential that LEAs continuously assess their individual situations, work closely with our office, and plan accordingly to maintain fiscal solvency and educational program integrity.

LEAs are reminded the May Revision is a proposal for the California Budget. The next steps include the Legislature submitting its proposal for the budget, the budget negotiations and finally the Governor approving, line item veto or full veto. LEAs are reminded to have contingency plans should any changes occur between proposal and final budget.