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February 16, 2018

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

From: Dean West, CPA
Associate Superintendent, Business Services

Subject: 2017-18 Second Interim Budget Advisory

This budget advisory is intended to provide information and guidance to assist local educational agencies (LEAs) in preparing the 2017-18 Second Interim Report.

It contains information related to the following items:

- Second Interim key guidance
- Key elements of the Governor's 2018-19 Proposed Budget
- Multi-year planning factors

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

Enclosures

cc: Directors, Business Services
SELPA Directors
ROC/Ps

2017-18 Second Interim Budget Advisory

Introduction

This budget advisory contains information related to the Second Interim for 2017-18 and is intended to provide guidance for LEAs to use in developing their Second Interim budget revisions and associated multiyear projections.

Second Interim Budget Key Guidance

The release of the Governor's budget begins the six-month process of enacting a new state spending plan. Aside from a larger-than-anticipated increase in state revenue projections and a resulting sizable increase in K-14 (Prop. 98) spending levels, the Governor's proposals contain few surprises. As he has done in recent years, the Governor warned that California is now experiencing its longest economic recovery since World War II and that a recession is inevitable.

In his final budget, the Governor announced that he would be able to fully fund his signature school funding reform, the Local Control Funding Formula (LCFF), and the Rainy Day Budget Reserve (Prop. 2, 2014). Nevertheless, the Governor maintains his commitment to fiscally conservative revenue projections and demonstrates a continuing resistance to creating new programs.

- The Governor's budget contains over $2 billion in one-time education spending.
- While underscoring his continuing concern over the condition of PERS and STRS pension funds, the Governor proposes no additional increases to employer (or employee) contributions beyond those already scheduled.
- Fiscal prudence is in order as there is much to be clarified over the next five months:

    - The proposed $1.757 billion in one-time discretionary funding will be the budget balancer used to address legislative priorities and any revenue shortfalls in the state budget through budget adoption in June. Districts that budget these funds in their 2018-19 multiyear projections need to ensure that the spending plan is flexible, scalable and adjustable. It is not advised to balance the 2018-19 budget based on one-time funds.

    - The possible negative impacts of the federal budget on California's budget are uncertain, as the economic and revenue forecasts used to build the Governor's budget do not consider the federal tax changes enacted last December.

    - Beginning in 2019-20, LCFF growth estimates will be limited to discretionary COLA adjustments.

Elements Introduced in the Governor's Proposal for 2018-19

One-Time Discretionary Funding. The Governor proposes $1.757 billion ($295 per ADA est.) in one-time Prop. 98 funding for school districts, charter schools and county offices of education. The funds are intended to offset any mandate reimbursement claims.

While one-time discretionary funding has been a consistent part of recent education budgets, the concept of reducing the one-time funding for some LEAs as a result of liabilities is new. The Health Care Services and K-12 education budgets include estimated repayments of $221.8 million to the federal government related to overpayments of claims in the Medi-Cal Administrative Activities (MAA) and LEA Billing programs. To reimburse the state for the payments made on behalf of the LEAs, the administration proposes withholding the amounts owed from the one-time discretionary allocations. Accordingly, the budget proposes, to the extent an LEA has an outstanding balance associated with these overpayments, the one-time discretionary funding appropriated to that LEA in the 2018-19 fiscal year would be applied to repay the state General Fund.

Program Reforms and New Expenditure Proposals. The Governor also proposes fiscal and policy reforms in the Statewide System of Support and Accountability, Career Technical Education, Special Education and Early Child Care, Teacher Recruitment/Retention, and School Facilities.

California's System of Support and New Accountability System. In conjunction with the implementation of the California School Dashboard, the Governor proposes ongoing funding for a statewide system of support designed to provide progressive tiers of targeted assistance to eligible districts and added transparency requirements for LEAs.

The Governor's budget also contains two proposals to "improve fiscal transparency and complement the new accountability system:"

- Require LEAs to show how their budget expenditures align with the strategies detailed in their LCAPs for serving students generating supplemental grants.
- Calculate and report on a single website the total amount of supplemental and concentration funding provided to each LEA under the LCFF.

The budget summary and administration briefings emphasized that county offices of education will serve as the first line of assistance within this emerging structure. However, it was also stressed that the California Collaborative for Educational Excellence (CCEE) and the CDE are integral components of the statewide system of support and will be expected to provide technical assistance and, in extraordinary circumstances, intervention for school districts, county offices of education, and charter schools identified as needing differentiated support.

Career Technical Education Funding. The Governor proposes to expand the Strong Workforce Program that was created in 2016 and funded at $248 million in 2017 through

community colleges. Specifically, the budget proposes an ongoing increase of $200 million in Prop. 98 funding to be awarded through competitive grants to LEAs that establish and support K-12 CTE programs that are aligned with needed industry skills. These grants will strengthen collaboration through the existing Strong Workforce Program. In addition, an ongoing increase of $12 million in Prop. 98 funding is provided to fund local industry experts, workforce pathway coordinators, who will provide technical support to LEAs operating CTE programs.

Special Education. The Governor's budget makes note of data from the California School Dashboard that two-thirds of school districts identified for differentiated assistance are based on the performance of students with disabilities. In addition, the administration has considered recent reports and recommendations from the California Statewide Special Education Task Force and the Public Policy Institute of California and makes the following proposals:

- Require Special Education Local Plan Areas (SELPA) to complete a SELPA local plan template and summary document that aligns the services noted in their local plans with the goals identified in their member districts' LCAPs.

- Require SELPAs to summarize how their annual budget plan links to the services and activities in their local plan for the ensuing fiscal year to improve special education budgeting transparency and accountability.

- Provide $10 million in ongoing Prop. 98 funding through competitive grants for SELPAs to work with county offices of education to provide LEAs with technical assistance to to improve student outcomes as part of the statewide system of support.

- Provide $100 million in one-time Prop. 98 funding to increase and retain special education teachers with the Teacher Residency Grant Program and Local Solutions Grant Program.

Special Education and Early Education (Inclusive Early Education Expansion Program). The budget proposes an additional $167 million in funding ($125 million one-time Prop. 98 and $42.2 million one-time federal TANF) to increase the availability of inclusive early education and care for children ages 0 to 5 years old, including those with exceptional needs. Funds are for training, equipment, and facilities renovation, and priority will be for providers that expand availability of care for children in low-income, high-need areas of the state.

K-12 Facilities & School Bond. Approximately $653 million in bond authority for 2018-19 is proposed to fund new construction, modernization, career technical education, and charter facility projects. Department of Finance staff report that it is the Governor's intention for these funds to be distributed to LEAs following two bond sales (fall and spring) and based on the Office of Public School Construction's processing of project applications and the State Allocation Board's approval of these projects.

Planning Factors for 2017-18 and MYPs

Key planning factors for LEAs to incorporate into the 2017-18 Second Interim budget and MYPs are listed below and are based on the latest information available.

Planning Factor	2017-18	2018-19	2019-20
COLA (Department of Finance – DOF)	1.56%	2.51%	2.41%
LCFF Gap Funding Percentage (DOF)	44.97%	100.00%	-
LCFF Gap Funding (in millions)	$1,362	$2,883	-
STRS Employer Statutory Rates	14.43%	16.28%	18.13%
PERS Employer Projected Rates	15.531%	17.70%	20.00%
Lottery – Unrestricted per ADA	$146.00	$146.00	$146.00
Lottery – Prop. 20 per ADA	$48.00	$48.00	$48.00
Mandated Cost per ADA for One-Time	$147.00	$295.00	$0
Mandated Block Grant for Districts – K-8 per ADA	$30.34	$31.10	$31.10
Mandated Block Grant for Districts – 9-12 per ADA	$58.25	$59.71	$59.71
Mandated Block Grant for Charters – K-8 per ADA	$15.90	$16.30	$16.30
Mandated Block Grant for Charters – 9-12 per ADA	$44.04	$45.15	$45.15
State Preschool (CSPP) Part-Day Daily Reimbursement Rate	$28.32*	$28.32	$28.32
State Preschool (CSPP) Full-Day Daily Reimbursement Rate	$45.73*	$45.73	$45.73

General Child Care (CCTR) Daily Reimbursement Rate	$45.44*	$45.44	$45.44
Routine Restricted Maintenance Account **All LEAs that received ANY School Facility Program funding are required to deposit 3% into their Routine Restricted Maintenance Account in the year in which the local control funding formula is fully implemented.**	Greater of: Lesser of 3% or 2014-15 amount or 2%	Greater of: Lesser of 3% or 2014-15 amount or 2%	Equal or greater than 3% of total GF expenditures
Routine Restricted Maintenance Account (Prop 51) **LEAs receiving School Facility Program (SFP) Prop 51 funding, the RRMA requirement reverts to 3% after the receipt of funds**	Equal or greater than 3% of total GF expenditures	Equal or greater than 3% of total GF expenditures	Equal or greater than 3% of total GF expenditures

* Rates effective as of 7/1/2017

Reserves

Our office continues to reinforce the need for reserves in excess of the minimum reserve for economic uncertainty. The required reserve for economic uncertainty represents only a few weeks of payroll for most districts. The Government Finance Officers Association recommends reserves, at minimum, equal to two months of average general fund operating expenditures, or about 17%. In determining an appropriate level of reserves, districts should consider multiple external and local factors including but not limited to:

- State and federal economic forecasts and volatility
- Unknown impacts of federal tax reform on state revenue
- Forecasted revenue changes versus projected expenditure increases in budget and multiyear projection years
- Ending balance impact of various district enrollment scenarios
- Cash flow requirements and the relationship between budgeted reserves and actual cash on hand
- Savings for future one-time planned expenditures
- Protection against unanticipated/unbudgeted expenditures
- Credit ratings and long-term borrowing costs

A prudent reserve affords districts and their governing boards time to thoughtfully identify and implement budget adjustments over time. Inadequate reserves force districts to react quickly, often causing significant disruption, sometimes unnecessarily, to student programs and employees.

The Governor's January budget proposal assumes continued economic expansion, yet the Governor continues to stress that fiscal restraint has never been more important. By the end of 2018-19, the expansion will have matched the longest since World War II. To buffer the state against uncertainty and future budget cuts, the Governor proposes to fund the Rainy Day Fund in 2018-19 at 100% of its constitutional target (10% of expenditures), bringing total state reserves to approximately $15.7 billion. It's important for districts to recognize the Rainy Day Fund is designed to protect the non-Prop. 98 side of the state budget and, when fully funded, will delay possible cuts for districts that might otherwise be necessary during an economic downturn. According to the Governor, even a mild recession could result in lost revenue of $20 billion annually, and recovery takes years.

The district reserve cap is not operable in the current year or in 2018-19 and is not expected to be operable in 2019-20. SB 751 modified Education Code 42127.01 (the district reserve cap), and these changes became effective January 1, 2018. The Public School System Stabilization Account (PSSSA) must now contain a balance of 3% or greater of the Prop. 98 amount in that year to trigger the reserve cap in the following year. Reserves would be capped at 10% (including designated and undesignated reserves Fund 01 and Fund 17) as long as the amount in the PSSSA remained at 3% or greater of the Prop. 98 amount in each preceding year. Basic aid and small school districts (those with fewer than 2,501 ADA) are exempted from the reserve cap. The four conditions that must be met to enable a transfer to the PSSSA are:

1. Prop. 98 is funded based on Test 1
2. Prop. 98 maintenance factor is fully repaid
3. Prop. 98 is sufficient for enrollment growth and statutory COLA
4. At least 8% of state general fund revenues must come from capital gains.

The likelihood of the reserve cap becoming operable in future years remains low but if this does come to pass, districts have the option to request a waiver from the county superintendent of schools for up to two consecutive years in a three-year period. Districts are advised to manage and maintain prudent reserves without consideration of the reserve cap language included in Education Code 42127.01.

Negotiations

Anticipated increased revenues in the 2018-19 budget proposal could create pressure on districts to provide unsustainable salary increases, significantly increasing the risk of fiscal insolvency.

- One-time funds received year after year can begin to resemble ongoing funding, and districts may face pressure to use these funds for ongoing salary increases. One-time funding should only be used for flexible, scalable, and adjustable expenditures.

- Full funding of the LCFF may provide a slight increase in funding in the budget year; however, estimates of future year increases will be limited to COLA alone – or less than 3% per year.

- Full funding of the LCFF also requires districts to maintain a 24:1 class size ratio for kindergarten through grade 3 unless a collectively bargained alternative exists. Absent a bargained alternative, some districts could face increased personnel costs or penalties.

- Full funding of the LCFF also means that supplemental and concentration grants will be fully funded, which could require an increase in expenditures for districts that were gradually increasing their grant amount by the annual gap factor.

Despite increased revenues, escalating fixed expenditures are increasingly difficult to manage and, accordingly, may ultimately threaten fiscal solvency for many districts:

- It is unlikely that the annual COLA on the LCFF will be sufficient to fund the annual cost increases associated with step and column and the escalating retirement system rates at most districts. For these districts, any additional ongoing increases to the salary schedule are highly problematic in maintaining a balanced budget.

- Many districts adopted a practice of multiyear agreements during the implementation phase of the LCFF. However, continuing this practice now that revenue growth will slow to COLA alone could lead to a rapid deterioration of fiscal solvency and is strongly discouraged.

Numerous other risk factors on the horizon affect the negotiating environment and the affordability of collective bargaining agreements:

- The impact to health care costs resulting from the elimination of the individual mandate under the Affordable Care Act

- Ongoing increases in the state minimum wage

- The increasing risk of an economic downturn as the expansion cycle exceeds all previous cycles

- Impacts associated with the recently enacted AB 119 regarding union access to employees

- Scheduled Supreme Court arguments in the Janus case at the end of February 2018

Regardless of the economic environment, districts always must be prepared to respond to employee requests for staff compensation and benefit increases. Nonetheless, fiscal solvency is paramount in negotiations and, if it is to be sustained, demands reasonable and accurate revenue and expenditure projections. Maintaining fiscal solvency while maximizing services to students

with available financial resources will be a continuing challenge. It is inevitable that cost reductions will be required for many districts in the budget year and/or the out years of the multiyear financial projection period.

Proposition 98

School district funding is largely governed by Prop. 98, which establishes a minimum funding requirement or guarantee. While the distribution of funding can affect individual school districts differently, LEAs should be familiar with the formula and how it impacts education funding. Prop. 98 funding consists of three main tests for calculating the minimum guarantee. These tests depend on multiple factors that include K-12 average daily attendance, per capita personal income and per capita general fund revenue. The tests are as follows:

- Test 1 – Guarantee based on share of state General Fund revenue (currently about 40%) going to K-14 education in 1986-87. Test 1 years are uncommon.

- Test 2 – Guarantee based on prior year funding level adjusted for year-over-year changes in K-12 attendance and California per capita personal income. Test 2 years are the most common.

- Test 3 – Guarantee based on prior year funding level adjusted for year-over-year changes in K-12 attendance and state General Fund revenues plus 0.5%.

The Department of Finance projects Test 3 for fiscal year 2018-19. The minimum guarantee is not finalized until the fiscal year is over. When the state updates relevant inputs, the guarantee can change from the level initially assumed in the January Proposed Budget, May Revision and even the state Adopted Budget.

The Governor proposed 2018-19 budget includes Prop. 98 funds of $78.3 billion, an increase of $3.1 billion from 2017-18. Also included is a $700 million increase to the 2017-18 guarantee (with no change to the 2016-17 guarantee), resulting in a $3.8 billion increase over the 2017 Budget Act passed last year.

Similar to past practice, the state proposes to fund a mix of one-time and ongoing initiatives to meet the guarantee. These increases in Prop. 98 spending allow for full implementation of the LCFF (two years prior to original administration estimates), discretionary one-time funding, expansion of state system for support and other additional funding for various state programs detailed in this message.

Over the next three years, the state General Fund revenue will change due to various economic and political developments, and this may change the Prop. 98 funding levels at May Revision. In addition, school district budget planning will be impacted by two significant changes starting in 2019-20:

1. The DOF will no longer provide LCFF funding increase estimates other than statutory COLA due to proposed full implementation of the LCFF in 2018-19. Any discretionary funding adjustments to LCFF above COLA will be a product of budget negotiations between the Governor and Legislature.

2. A new Governor will be sworn into office in 2019. Accordingly, the administration's prioritization of any LCFF discretionary funding (funding beyond COLA) cannot be assumed.

As a result of being in Test 3, a $92 million maintenance factor obligation is created in 2018-19, of which $5 million is due to suspension of Test 3B for five years in the 2017-18 Budget Act. Any funding reduced by a suspension would be added to the maintenance factor obligation, which will be repaid as General Fund revenues strengthen.

A good resource for understanding Prop. 98 is the Legislative Analyst Office publication: A Historical Review of Prop. 98, January 2017. http://www.lao.ca.gov/Publications/Detail/3526

Special Education

The Governor's Budget proposes a 2.51% COLA estimated at $13.58 per ADA. This brings the estimated statewide AB 602 rate to $554.57 per ADA.

The Governor makes note of data from the California School Dashboard showing that the identification of approximately two-thirds of school districts for differentiated assistance is based on the performance of students with disabilities. In addition, the administration acknowledges considering recent reports and recommendations from the California Statewide Special Education Task Force and the Public Policy Institute of California and makes the following proposals:

SELPA Local Plan Template and Summary Document. The CDE will develop by March 31, 2019 a new SELPA local plan template and summary document for use by districts and COEs. Effective July 1, 2020, SELPAs will be required to complete a plan template and a summary document that links the services and activities noted in their local plans with their annual budget plan. The summary document will include the following elements:

1. A description of the ways in which the specific actions included in the annual service plan are consistent with the goals and actions identified in the LCAP or annual update of the LCAP for individuals with exceptional needs for all participating agencies in the SELPA

2. A description of how the SELPA supports participating agencies in achieving the goals, actions and services identified in their LCAPs

3. A description of how the SELPA connects participating members in need of technical assistance to the system of statewide support

Also, effective July 1, 2020, a special education local plan will be effective for a period of three years, and updated every three years thereafter.

Summarize Expenses and Services. Beginning in fiscal year 2018-19, require districts and COEs to post on their websites any special education local plan, annual budget plan and annual services plan approved or updated (or revised) by their governing board. COEs are also required to post district special education local plans or links to district local plans on the COE website.

Additionally, a copy of the special education local plan, including policies and procedures and the annual budget and service plans, shall be held on file at the SELPA office and at the office of each participating LEA and shall be accessible to any interested party.

COE Technical Assistance Grants. Beginning in fiscal year 2018-19, the CCEE and CDE will create a new process, administered by CDE, to select (subject to approval by the executive director of the State Board of Education in consultation with the DOF) no less than six and no more than 10 SELPAs to work with COEs to provide technical assistance to LEAs to improve student outcomes as part of the statewide system of support. The budget proposes $10 million of ongoing funding to be awarded for support of the lead agencies (SELPAs) selected. A request for proposals will be released by CDE following passage of the state budget.

Teacher Residency Grant Program. For the 2018-19 fiscal year, $50 million is appropriated to the Commission on Teacher Credentialing (CTC) to establish the Teacher Residency Grant Program to provide one-time competitive grants to LEAs to develop or expand teacher residency programs that recruit and support the preparation of special education teachers. This funding will be available for encumbrance until June 30, 2023.

Grant recipients will work with one or more CTC-accredited teacher preparation programs and may work with other community partners or nonprofit organizations to develop and implement programs of preparation and mentoring for resident teachers who will be supported through program funds and subsequently employed by the sponsoring LEA.

Grants will be up to $20,000 per teacher candidate in the residency program of the jurisdiction of the LEA or consortium, matched by that LEA or consortium. Grant program funding must be used for, but is not limited to, any of the following: teacher preparation costs, stipends for mentor teachers, stipends for teacher candidates, and mentoring and induction costs following initial preparation. No more than 5% of a grant award may be expended for program administration costs. Grant recipients will provide a 100% match of grant funding in the form of either: a dollar-for-dollar match, an in-kind match of mentor teacher personnel costs or other personnel costs related to the Teacher Residency Grant Program or a combination of these two.

Grant applications will be made to the CTC at a time, in a manner, and containing information prescribed by the Commission after the passage of the state budget.

Grant applicants may be submitted by one or more, or any combination of the following:

1. School districts

2. County offices of education

3. Charter schools

4. Regional occupational centers or programs operated by joint powers authorities

Additionally, the CTC will allocate up to $1.5 million for capacity grants that will be awarded on a competitive basis to LEAs or consortia partnering with institutions of higher education to expand or create teacher residency programs that lead to more credentialed special education teachers. The CTC will determine the number of grants to be awarded and the amount of the applicable grants; however, individual capacity grants will likely not exceed $75,000 per grant recipient.

Finally, expect that a request for proposals will be released by the CTC following passage of the state budget.

Local Solutions Grant Program. For the 2018-19 fiscal year $50 million will be appropriated from the General Fund to the CTC to provide one-time competitive local solutions grants to LEAs to develop and implement new, or expand existing, locally identified solutions that address a local need for special education teachers. This funding will be available for encumbrance through June 30, 2023 and available for liquidation through June 30, 2026.

Grant applications will be made to the CTC at a time, in a manner, and containing information prescribed by the Commission after passage of the state budget.

Grants of up to $20,000 per teacher participant that the identified solution proposes to support will be made, and matched by that LEA or consortium Funding may be used for local efforts to recruit, develop, and retain special education teachers that include, but are not limited to, teacher career pathways, signing bonuses, service awards, student debt payment, living stipends, or other transformational solutions that address a local need for special education teachers.

Grant applicants may be submitted by one or more, or any combination of the following:

- School districts
- County offices of education
- Charter schools
- Regional occupational centers or programs operated by joint powers authorities

Grant recipients will provide a 100% match of grant funding to support, complement or enhance their local identified solutions. The match can be in the form of either a dollar-for-dollar match, in-kind contributions or any combination of the two.

Grant recipients may expend no more than 5% of a grant award for program administration costs.

Additionally, recipients cannot use funds from a local solution grant award to support teacher candidates participating in a program supported by an award from the Teacher Residency Grant Program.

For purposes of administering the grant program, the CTC will do the following:

- Determine the number of grants to be awarded and the total amount awarded to each grant applicant

- Require grant recipients to annually report the status and progress of the solution and to submit a final implementation report within three years of receiving a grant award that describes its outcomes and effectiveness

- Allocate 90% of funding to each grant recipient at the initial grant award and allocate the final 10% of grant funding upon receipt of the final implementation report. If the grantee fails to provide the final implementation report, the grantee will not receive the final 10% of the grant award

Expect that a request for proposals will be released by the CTC following passage of the state budget.

Special Education and Early Education (Inclusive Early Education Expansion Program). This proposal is covered in the Early Childhood Education section of this Common Message.

Prop. 39 – Clean Energy Job Act

The 2017-18 Adopted Budget allocated $376.2 million in funding for the 2017-18 fiscal year, bringing the five-year total to $1.75 billion. In addition, newly adopted SB 110 states any funds remaining after 2017-18 continue to be available for future years for grants and loans to school districts and county offices. One significant use of the funds will be for school bus retrofit or replacement. Priority will be to school districts and county offices operating the oldest school buses or school buses operating in disadvantaged communities. See below for updated deadlines and helpful website addresses.

Updated information can be found at: http://www.energy.ca.gov/efficiency/proposition39/

Most recent important updates:

- Current law requires LEAs to encumber Prop. 39 K-12 program allocations by the statutory deadline of **June 30, 2019.**

- Energy Expenditure Plan due date is February 26, 2018.

- February 26, 2018, is the final opportunity to request Prop. 39 funding. If an LEA has award allocation remaining, **now is the time to apply** by submitting an energy expenditure plan to the Energy Commission.

- All amendments requesting additional Prop. 39 K-12 grant funding are also due by February 26, 2018.

- After February 26, 2018, the Energy Expenditure Plan online system will not accept new energy expenditure plans or amendments requesting additional Prop. 39 funding. However, amendments for adjustments to approved EEPs that do not request additional funding will continue to be accepted after February 26, 2018. Rules regarding amendments that document significant EEP changes are outlined in the program guidelines.

- Questions may be directed to Prop39@energy.ca.gov or the Prop. 39 (K-12) Hotline, toll-free at 855-380-8722, or for those out-of-state at (916) 653-0392.

- Per CDE, no contribution is needed to Resource 6230 due to the apportionments crossing fiscal years; a negative ending fund balance is allowable with explanation in the technical checks (scroll to the bottom of the page):http://www.cde.ca.gov/fg/ac/ac/sacsminutes110215.asp

As of November 13, 2017 an updated entitlement schedule with payment and balances is available on the CDE website: http://www.cde.ca.gov/fg/aa/ca/prop39cceja.asp.

This report provides background on the Prop. 39: California Clean Energy Jobs Act K-12 Program and a summary of approved energy expenditure plans, completed projects, and projects soon to be completed, as reported by LEAs. http://www.energy.ca.gov/2017publications/CEC-400-2017-001/CEC-400-2017-001-CMF.pdf

Early Childhood Education

Child Care and State Preschool

The budget builds upon previous investments in early childhood programs by increasing provider reimbursement rates and expanding access for families. The budget also creates the Inclusive Early Education Expansion Program, a one-time (funded) program to provide services to children in low-income and high-need communities. Finally, the state has approved pilot programs for 13 counties that allow providers in these counties flexibility in child care programmatic requirements to allow them to earn more of their contract funding. The administration supports providing counties with flexibility to serve more families in subsidized child care programs and has begun working with stakeholders to streamline and alleviate burdensome requirements in the pilot counties.

Significant Adjustments:

- $50 million to fund a 2.51% COLA for both Prop. 98 and non-Prop. 98 direct service programs.

- Provider Reimbursement Rate Increases – Increases of $31.6 million Prop. 98 General Fund and $16.1 million non-Prop. 98 General Fund to increase the standard reimbursement rate by 2.795%. In addition, the budget reflects an ongoing increase of $34.2 million beginning in 2019-20 to make permanent the existing limited-term Regional Market Reimbursement Rate hold harmless provision.

- Full Year Implementation of 2017 Budget Act Investments – Increases of $32.3 million non-Prop. 98 General Fund and $28.4 million Prop. 98 General Fund to reflect full-year costs of new policies implemented partway through the 2017-18 fiscal year. These costs are associated with an update of the Regional Market Reimbursement Rate to the 75th percentile of the 2016 regional market rate survey (beginning January 1, 2018), and an increase of 2,959 slots for full-day State Preschool (beginning April 1, 2018).

- CalWORKs Stage 2 and Stage 3 Child Care – A net increase of $5.2 million non-Prop. 98 General Fund in 2018-19 to reflect slight increases in the number of CalWORKs child care cases and slight decreases in the estimated cost of care. Total cost for Stages 2 and 3 are $517.6 and $335.4 million, respectively.

- Federal Child Care and Development and TANF Funds – A decrease of federal TANF from $120.1 million in 2017-18 to $70.6 million in 2018-19. Total TANF and federal Child Care and Development Fund is $707 million.

Inclusive Early Education Expansion Program

The Governor proposes new $167.2 million one-time funding ($125 Prop. 98, $24.2 TANF) for the Inclusive Early Education Expansion Program. The funds will be allocated through a competitive grant program, jointly administered by CDE's Special Education and Early Education and Support divisions, to increase the availability of inclusive early education and care for children ages 0-5. Grants will include the following requirements:

- Proposals must be targeted to provide services to children in low-income and high-need communities as defined by Education Code 8499.5, and priority will be given to applicants with a demonstrated need for expanded access to inclusive early care and education, as well as applicants that represent a consortium of local partners.

- Grants may be used for one-time infrastructure costs only.

- Grantees must provide a 33% local match.

- Applicants must provide a plan to sustain programs beyond the grant period.
- Expenditures must comply with Chapter 2017, Statutes of 1997 and Section 601 et seq. of Title 42 of the United States Code (TANF law).
- Funds may be encumbered through June 30, 2023.

Only LEAs will be eligible to apply for the Prop. 98 funding, but they may apply on behalf of a consortium of providers. All providers will be eligible for the TANF funding.

LCAP – Budget Implications and Considerations

As districts prepare their Second Interim budget reports, they are most likely using the Fall 2017 data released on the California School Dashboard to communicate with stakeholders, identify areas of progress and need, and determine if any modifications are needed as they plan their 2018-19 LCAP. Important discussions are taking place regarding whether LCAP-directed resources are having a positive impact on gaps in achievement, whether district initiatives need more time to take root, or whether a change in direction is warranted.

The Governor's budget proposal for 2018-19 calls for full funding of the LCFF. It also includes language requiring "fiscal transparency" on how LCFF funds are being used. This is the Governor's proposed 2018-19 budget trailer bill language regarding the school district budget/LCAP crosswalk:

> *Effective July 1, 2019, each budget shall include a summary document that links budget expenditures to corresponding goals, actions, and services in the school district's local control and accountability plan for the ensuing fiscal year. The State Board of Education shall develop a template for the summary document by January 30, 2019. This shall include the school district's estimate of the funds to be apportioned for increased or improved services for unduplicated pupils.*

Districts must consider what progress has been made toward increasing or improving services for the students that generate supplemental and concentration funds. Are districts ensuring these funds are supporting services that are principally directed toward these students? Engaging in an early inquiry process related to the use of supplemental and concentration funds may help districts improve or clarify the link between local planning and fiscal reporting documents.

Our office is offering technical assistance to some districts, as required under the new support and accountability framework. Work will proceed in the coming months, but the approach will differ from former support models. The starting point will be discussions with the district leadership team and stakeholders about the Dashboard results and other local data, identified strengths and challenges, and assistance in identifying potential root causes of challenges faced by the district. Districts may look to modify actions and services in their 2018-19 LCAP to address specific challenges. This will directly impact budgetary planning.

If an LEA is working with a partner agency, such as the CCEE, we will ask for updates as that work proceeds through the differentiated assistance process. There is no requirement to create a new improvement plan. Instead, districts will utilize the LCAP process to strengthen/change their LCAP through the annual update cycle.

Career Technical Education (CTE) and Workforce Development

Commencing with the 2018-19 fiscal year, the Governor proposes $200 million for the K-12 component of the Strong Workforce Program to create, support, or expand CTE programs at the K-12 level that align with the workforce development efforts occurring through the Strong Workforce Program.

Funding will be apportioned from the chancellor's office to the fiscal agent of each consortium based on the following weighted factors in each region:

- 33% of the allocation formula will come from a factor derived from the unemployment rate.
- 33% of the allocation formula will be derived from the region's total prior year P-2 average daily attendance for pupils in grades 7 to 12, inclusive.
- 34% of the allocation will be based on the proportion of projected job openings.

Of the amounts appropriated to each consortium pursuant to above:

- 4% is designated for applicants with ADA of less than or equal to 140,
- 8% is designated for applicants with ADA of more than 140 and less than or equal to 550,
- 88% is designated for applicants with ADA of more than 550,
- Unless otherwise determined by the subcommittee formed to award the grants, in consultation with the consortium.
- For any applicant consisting of more than one school district, county office of education, charter school, or regional occupational center or program operated by a joint powers authority, or of any combination of those entities, the sum of the ADA for each of the constituent entities shall be used for purposes of determining which ADA tier they fall within.

Each consortium shall administer a competitive grant program to allocate the funding provided to eligible K-12 grant recipients. For purposes of awarding the grants, each consortium will form

a subcommittee made up of individuals with expertise in K-12 education and workforce development.

LEAs will provide a proportional dollar-for-dollar match for any funding received from this program as follows:

- For regional occupational centers or programs operated by joint powers authorities, $1 for every $1 received from this program.
- For all other LEAs, $2 for every $1 received from this program.

Commencing in 2020, the chancellor's office will include data summarizing outcome measures for the K-12 component of the program, and recommendations for program improvement in the Strong Workforce Program report that is required to be submitted to the Governor and the Legislature.

Career Technical Education Facilities Program

The Career Technical Education Facilities Program (CTEFP) provides funding to qualifying school districts and joint powers authorities for the construction of new facilities, modernization or reconfiguration of existing facilities, and equipment to integrate CTE programs into comprehensive high schools.

Prop. 51 included $500 million to construct/modernize CTE facilities as well as purchase equipment on comprehensive high school sites. Joint powers authorities currently operating CTE programs may qualify for modernization funds. The State Allocation Board approved regulatory amendments to establish additional funding cycles, as well as other amendments, for the CTEFP on August 23, 2017.

Applying for the CTEFP funding is a two-step process involving both the CDE and Office of Public School Construction. The window for applications due to the CDE was September 27, 2017 through November 29, 2017. Applicants who submitted a grant application during that timeframe may be eligible, based on notification of a passing score from the CDE, to submit a final grant application to the Office of Public School Construction by February 21, 2018.

The CDE will publish grant application scores from the first round of applications by February 14, 2018.

For detailed information, please see these websites:

CDE page for CTE Facilities Program: http://www.cde.ca.gov/ls/fa/sf/careertech.asp

OPSC page for CTE Facilities Program:
http://www.dgs.ca.gov/opsc/Programs/careertechnicaleducationfacilitiesprogram.aspx

Summary

As stated in the introduction, this budget advisory contains information for utilization in preparing the 2017-18 Second Interim budget report. It is imperative for LEAs to stay well informed, consider the impact of proposed and potential changes, both fiscal and programmatic, and adapt accordingly.