The Marin Common Message

2018-19 Second Interim

MARIN COUNTY OFFICE OF EDUCATION

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Second Interim Budget Key Guidance

The January release of the Governor's 2019-20 State Budget Proposal provides funding for a cost of living adjustment (COLA) to address expenditure growth. It also addresses rising pension contributions, and greater access to school construction and modernization project funding. The proposals include:

- $2 billion in Prop. 98 funding dedicated to the statutory COLA of 3.46%;
- $3 billion non-Prop. 98 funds toward debt payments to the CalSTRS liability for school employers, and
- $1.5 billion in state bonds to allow agencies greater access to funds for facilities projects.

These proposals provide more revenue and lessen the impact of expenditure increases for schools in their multiyear forecasts. Although no one-time discretionary funds are allocated this year, the pension relief proposal should be a welcome response to the concerns of the education community.

There are other proposals included in the Governor's 2019-20 State Budget release, that are funded from non-Proposition 98 funds that will have an impact on the lives of students and their families. Later in the document, we ill discuss these programs given the information available at this time.

Significant Changes Since First Interim

There are no changes in factors for the 2018-19 fiscal year. However, the proposed State Budget will affect multiyear projection factors. Projected COLAs for 2019-20 and 2020-21 have increased to 3.46% and 2.86%, respectively. These increase the cost to fund the 2019-20 Local Control Funding Formula (LCFF) COLA has increased to $2.0 billion, up from the previous $1.6 billion estimate.

A total of $3 billion in one-time non-Proposition 98 funding is proposed to address increasing CalSTRS costs. A $700 million one-time allocation to reduce the CalSTRS liability for school employers is proposed to lower the current statutory increase of the employers' rate in 2019-20 and 2020-21 by approximately 1%. An additional $2.3 billion investment may lower future rates by an estimated 0.5%.

LEAs should identify the impact on local facility project schedules in response to the larger proposed state bond issuances.

The Governor's proposal includes special education concentration grants, providing additional resources for interventions and support of LEAs with both high concentrations of Students with Disabilities and unduplicated pupils, and a first step toward universal preschool with a proposal increasing access to the existing State Preschool program for low-income four-year old children.

Planning Factors for 2018-19 and MYPs

Key planning factors for LEAs to incorporate into their 2018-19 budgets and MYPs are listed below and are based on the latest information available.

Planning Factor	2018-19	2019-20	2020-21
Statutory COLA (DOF)	2.71%	3.46%	2.86%
LCFF Augmented COLA (school districts and charter schools)	3.70%	n/a	n/a
LCFF Gap Funding Percentage (DOF)	100.00%	n/a	n/a
LCFF Gap Funding (in millions)	$3,556	n/a	n/a
STRS Employer Statutory Rates (statute until 2020-21)	16.28%	18.13%	19.10%
STRS Employer Statutory Rates (Proposed Buydown)	16.28%	*17.10%	*18.10%
PERS Employer Projected Rates (September 2018)	18.062%	20.70%	23.40%
Lottery – Unrestricted per ADA (did not change)	$151.00	$151.00	$151.00
Lottery – Prop. 20 per ADA (did not change)	$53.00	$53.00	$53.00
Mandated Cost per ADA for One-Time	$184.04	n/a	n/a
Mandated Block Grant for Districts – K-8 per ADA (increase by COLA 2.71%, etc.)	$31.16	$32.24	$33.16

Planning Factor	2018-19	2019-20	2020-21
Mandated Block Grant for Districts – 9-12 per ADA (increase by COLA 2.71%, etc.)	$59.83	$61.90	$63.67
Mandated Block Grant for Charters – K-8 per ADA (increase by COLA 2.71%, etc.)	$16.33	$16.90	$17.38
Mandated Block Grant for Charters – 9-12 per ADA (increase by COLA 2.71%, etc.)	$45.23	$46.79	$48.13
State Preschool (CSPP) Part-Day Daily Reimbursement Rate	$29.90	$30.94	$30.94
State Preschool (CSPP) Full-Day Daily Reimbursement Rate	$48.28	$49.95	$49.95
General Child Care (CCTR) Daily Reimbursement Rate	$47.98	$49.64	$49.64
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 LCFF is fully implemented, which is 2019-20.** **If district received Prop. 51 funds in 2017-18 or 2018-19, the minimum 3% RRMA contribution is required in 2018-19.**	Greater of: Lesser of 3% or 2014-15 amount or 2%	Equal or greater than 3% of total GF expenditures	Equal or greater than 3% of total GF expenditures

*The Governor's January Proposal proposes using approximately $700 million of one-time non-Prop. 98 funds to reduce the employer portion of the CalSTRS rates by 1% in 2019-20 and by 1% in 2020-21, thereby slowing down the statutory rate increases.

In addition, LEAs should take into consideration any local statutory adjustments that may affect their budget, such as minimum wage adjustments.

Reserves/Reserve Cap

County offices continue 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.
- 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.
- Long-term unfunded liabilities.
- Credit ratings and long-term borrowing costs.

Prudent reserves afford 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 to student programs and employees.

The district reserve cap was not activated in 2018-19 and is **not expected to be activated in 2019-20**. Districts are advised to manage and maintain prudent reserves without consideration of the reserve cap language included in Education Code 42127.01.

Negotiations

Although LEAs may benefit from a higher COLA environment than seen in years prior to 2018, the need for fiscal prudence to maintain reserves and restrain from deficit spending is critical.

When planning for negotiations, LEAs should consider the following:

- The Governor’s proposed programs funded by non-Prop. 98 dollars (Preschool, Full Day K, STRS relief) still need to be enacted.
- Full funding of the LCFF limited to COLA alone at 3.46% (which is not final and will be revised in May), and LEAs may feel the impact of no longer receiving increased funding for LCFF gap closure.
- 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 ratio exists.

- Full funding of the LCFF equates to supplemental and concentration grants also being fully funded, which will require an increase in expenditures and services principally directed to the unduplicated students who generated those dollars.

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

- New proposal for expanded parental leave (of which most details are unknown).
- Annual increases in the state minimum wage by $1.00 per hour on January 1.
- The increasing risk of an economic downturn as the expansion cycle exceeds most previous cycles.

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.

Local Control and Accountability Plan (LCAP)

The current year budget updates implemented in an LEA's second interim report can be used in ongoing stakeholder engagement around LCAP implementation, and can serve as the initial estimated actuals for the LCAP Annual Update. If the second interim indicates that some LCAP actions and services are not likely to be fully implemented as planned, explanations for these developments should be incorporated into the analysis section of the Annual Update. Likewise, if the District undertook initiatives that were not identified in the original LCAP, the Annual Update provides an opportunity to document these actions/services. The development of the second interim MYP should be used to inform any possible changes to planned LCAP goals, actions and services for 2019-20, and vice versa.

As required by Education Code 52064.1, in January the CDE released a new required document, the LCFF Budget Overview for Parents. The Budget Overview is to be attached as a cover to the LCAP, and it must go through the approval process with the LCAP. The public hearing notice and board agenda item should address the addition of the LCFF Budget Overview for Parents.

Also in January, the SBE approved a revised LCAP template. The new template removes the budget information from the LCAP summary section, because that information is now covered in the Budget Overview, and it adds three new prompts to the summary related to schools identified for Comprehensive Support and Improvement (CSI) under the federal Every Student Succeeds Act (ESSA). In addition, the new LCAP template makes minor conforming changes such as removing reference to the API.

The LCFF Budget Overview for Parents and the revised LCAP template can both be found at CDE's LCAP webpage: https://www.cde.ca.gov/re/lc/

Information about schools identified for CSI can be found at: https://www.cde.ca.gov/sp/sw/t1/csi.asp and is further detailed in the section below under Other Grants, ESSA Support & Improvement

In addition to the main LCAP template and the Budget Overview, this year LEAs will need to complete the LCAP Federal Addendum. The Federal Addendum is submitted to the CDE for approval, not to the county office. Information about the Federal Addendum can be found on the CDE's LCAP webpage linked above.

The MCOE LCAP team will be available for technical assistance to districts. Sessions will follow the system set up last year, with individual district sessions during the Spring, 2019 through April 15. Times for TA sessions will be in accordance with district schedules.

Please submit your draft LCAP to the team on or before April 26, 2019 to be assured we can review your draft LCAPS. We will arrange review sessions with districts in early to mid-May

As a reminder, budget cleanup bill AB 1840 called for further significant changes to the LCAP. A template is to be adopted by the SBE by January 31, 2020, to be effective for the 2020-21 – 2022-23 LCAP cycle commencing with the 2020-21 school year.

CalSTRS Liabilities and Employer Contribution Rates

LEAs have been faced with rising CalSTRS employer contribution rates over the past six years. In 2013-14, CalSTRS employer rates were 8.25% and have nearly doubled, rising to 16.28% in 2018-19. The Governor's Proposed Budget for 2019-20 includes a two-part proposal to provide CalSTRS relief for school employers.

The first part provides immediate relief of $700 million from one-time, non-Prop. 98 funds to be applied over two years. This will reduce the employer's projected rate by 1.03% in 2019-20 and by 1% in 2020-21.

The second part of the Governor's Proposal provides $2.3 billion to buy down the employer's unfunded liability, again using one-time non-Prop. 98 funds. The impact of this buy-down is expected to reduce employer contribution rates by 0.5% on an ongoing basis. However, beginning in 2021-22, the CalSTRS Board has the authority to increase (or decrease) the employer contribution rate (with some restrictions) to fully fund the CalSTRS unfunded liability by 2046.

Based on the Governor's Proposed Budget for 2019-20:

> The CalSTRS employer rate for 2019-20 is projected to lower the statutory increase from 18.13% to 17.10%.

- The CalSTRS employer rate for 2020-21 is projected to lower the statutory increase from 19.10% to 18.10%.
- Ongoing CalSTRS employer rate increases are projected to be offset by a 0.5% decrease on average.

Early Childhood Education

Universal Preschool

As a first step toward universal preschool, the budget proposes increasing access to the existing State Preschool program for all low-income 4-year-olds, as follows:

- $124.9 million non-Prop. 98 general fund and additional investments in the two succeeding fiscal years to fund a total of 200,000 slots by 2021-22. Given limited capacity at LEAs, the additional slots will be provided by non-local educational agencies.
- Eliminates the existing requirement that families with 4-year-olds provide proof of parent employment or enrollment in higher education to access the full-day program.
- Shifts $297.1 million Prop. 98 general fund for part-day State Preschool programs at non-LEAs to non-Prop. 98 general fund.

To achieve universal preschool, the budget proposes $10 million of funding to develop a long-term plan during the budget year. The plan will outline necessary steps to provide universal preschool in California, including strategies to address facility capacity, to ensure a trained workforce is available, and to identify revenue options to support universal access. The plan may include proposed changes to the transitional kindergarten program given the overlap between that program and universal preschool. The plan will also address improved access to and quality of subsidized child care. The plan will be developed during the budget year in consultation with stakeholders and experts.

General Child Care

To increase the quality and availability of child care, the budget proposes $500 million one-time general fund to both (1) expand subsidized child care facilities in the state and (2) make a significant investment in the education of the child care workforce to improve the quality of care and move child care professionals along the early education/child care professional continuum.

For CalWORKs Stages 2 and 3 child care the budget includes a net increase of $119.4 million non-Prop. 98 general fund in 2019-20 to reflect increases in the number of CalWORKs child care cases. Total costs for Stage 2 and 3 are $597 million and $482.2 million, respectively.

To account for full-year implementation of prior year State Preschool slots the budget includes an increase of $26.8 million Prop. 98 general fund to reflect full-year costs of 2,959 full-day State Preschool slots implemented partway through the 2018-19 fiscal year.

Universal Full-Day Kindergarten

The budget proposes $750 million one-time non-Prop. 98 general fund to construct new school facilities or retrofit existing school facilities to provide full-day kindergarten classrooms. Priority will be given to school districts that meet either of the following criteria:

- The school district is financially unable to contribute a portion of, or all of, the local matching share required.
- The school district is located in an underserved community with a high population of pupils who are eligible for free or reduced-price meals pursuant to Section 42238.01.

Except for school districts that meet the requirements for financial hardship, a school district that applies for a grant pursuant to this section for new construction shall provide 50% of the cost of the project, and a school district that applies for a grant pursuant to this section for a retrofit project shall provide 40% of the cost of the project.

Special Education

The Governor's Budget Proposal for special education includes a COLA of 3.46% ($18.67 per ADA) and a Statewide Target Rate of $558.35 per ADA. The official 2018-19 Statewide Target Rate is $539.68 and reflects the 2.71% COLA. The 2018-19 statewide target is calculated after removal of the 2017-18 regionalized services/program specialist funding from the AB 602 calculation, which occurred in the 2018-19 State Budget. The official statewide average PS/RS rate for 2018-19 is $15.97 and is estimated to be $16.53 for 2019-20 based on the 3.46% COLA.

The Governor's proposal also includes $577 million in non-AB 602 funding for supplemental services for students with disabilities, $390 million of which would be ongoing. The Special Education Concentration Grant would be allocated to school districts, county offices of education, and charter schools that have an unduplicated pupil percentage above 55% and an identified percentage of students with disabilities that exceeds the three-year (budget year and two prior years) statewide average. Ongoing and one-time funds would be allocated to qualifying LEAs based on the number of students with disabilities in excess of the statewide average. In each year, commencing with the 2020-21 fiscal year, the ongoing concentration grant funding provided in the State Budget would be adjusted by COLA.

This grant is intended to supplement special education services and supports beyond those required by individualized education programs. Services and supports provided by this funding may include but are not limited to early intervention services, including preschool and supportive services for young children who are not meeting age-appropriate developmental milestones or other supportive services, one-time programs, infrastructure investments or resources for students with exceptional needs, strategies to improve student outcomes identified through the state system of support or to expand local multi-tiered systems of support and wraparound services for students with exceptional needs. Grant funds may also be used for professional development activities and the coordination of services with other educational agencies, programs, resources and professional development providers.

School Facility Bond Funds

The 2019-20 Governor's Budget includes $1.5 billion in funding to support the State Facility Program and an additional $1.2 million to increase the staff necessary to process the more than $4.5 billion in applications currently pending at the Office of Public School Construction.

Additionally, the new administration believes that facilities are the primary challenge keeping LEAs from providing full-day kindergarten. As such, funding of $750 million has been proposed to build new kindergarten facilities.

Other Grants

ESSA – Support and Improvement Funding

The Every Student Succeeds Act (ESSA) requires the CDE to determine school eligibility for Comprehensive Support and Improvement (CSI) and Additional Targeted Support and Improvement (ATSI) based on the criteria in California's ESSA State Plan. The 2018-19 data file and preliminary funding file for schools that meet the criteria for CSI and ATSI is now posted on the CDE website at https://www.cde.ca.gov/sp/sw/t1/csi.asp .

Information on the selection, eligibility criteria, program requirements, and support for CSI and ATSI can be accessed from the CDE School Support webpage at https://www.cde.ca.gov/sp/sw/t1/schoolsupport.asp.

The 2018-19 ESSA CSI LEA Application for Funding must be completed and submitted in the Grant Management Reporting Tool (GMART) no later than **Friday, February 22, 2019, by 4 p.m.** and can be accessed at https://www3.cde.ca.gov/gmart/gmartlogon.aspx . Logon credentials for the GMART for each LEA were emailed to the superintendent or designee. We have confirmed that all Marin County Districts that are eligible for 2018-19 CSI funding have submitted their funding applications ahead of the final due date.

California will use the California School Dashboard to determine school eligibility for CSI. School eligibility is based on the following two categories of schools:

1. High schools with a graduation rate less than 67% averaged over two years.
    - All high schools, including Title I, non-Title I, traditional, and Dashboard Alternative School Status are eligible.
2. Not less than the lowest-performing 5% of Title I schools.

- Schools with all red indicators.
- Schools with all red but one indicator of another color.
- Schools with five or more indicators where the majority are red.
- Schools with all red and orange indicators.

School planning and LEA assistance for each school that meets the criteria for CSI will be incorporated into the LCAP and school planning processes.

Upon receiving notification from the state, and in partnership with stakeholders and for each school that meets the criteria, the LEA shall:

- Locally develop and implement a plan for the school to improve student outcomes.
- Approve and incorporate each plan into the LCAP.

Each plan must:

- Be informed by all state indicators, including student performance against state-determined long-term goals;
- Be based on a school-level needs assessment;
- Include evidence-based interventions; and
- Identify resource inequities, which may include a review of LEA- and school-level budgets, and address those inequities through implementation of the plan.

School-Based Medi-Cal Administrative Activities (SMAA)

Backcasting - Disallowed claims and apportionment for one-time funds (Prop. 98)

In October 2014, the Department of Health Care Services (DHCS) reached a settlement agreement with the Centers for Medicare and Medicaid Services (CMS) for payment of invoices submitted during the time that the School-Based Medi-Cal Administrative Activities (SMAA) program was in deferral.

Part of this agreement included the requirement that LEAs participate in backcasting, a process that compares the SMAA claiming results under the old methodology (i.e., time logs) to the claiming results under the new methodology (Random Moment Time Survey or RMTS). If the backcasted invoice resulted in a claimable amount that was less than the interim payment received by the LEA, the LEA will be required to pay back the “overpayment” to DHCS.

Now that all three groups of backcasting invoices have been submitted to DHCS (Group 1 - 09/10 Q1 - 10/11 Q4, Group 2 - 11/12 Q1 - 12/13 Q4, and Group 3 - 13/14 Q1 - 14/15 Q2), many LEAs owe money as a result. To recoup these overpayments from LEAs, language was written into the 2018 Budget that allows the DOF to take the amount owed directly from an LEA’s Prop. 98 one-time discretionary funding apportionment.

The CDE released a letter to county superintendents dated December 31, 2018, regarding the first apportionment for one-time funds for mandate claims. The letter indicated that "If a school district is required to repay claims disallowed under the SMAA program ... the State Controller shall, upon notification from the Department of Finance (DOF), withhold the specified amounts owed from the allocations made to those school districts."

On February 4, 2019 the CDE sent out an email titled "Update: First Apportionment for One-Time Funds for Outstanding Mandate Claims, Fiscal Year 2018-19" in which it reported that the funds owed back to the state were actually not withheld from this first apportionment. It went on to say that "The withholdings for the SMAA claims may be applied by the State Controller against the second apportionment on one-time funds scheduled to be apportioned in June 2019."

Of concern to the LECs and CCSESA is whether the June 2019 apportionment will be sufficient to cover the total funds owed back due to backcasting. If the funds are not sufficient to cover the liability, it is unclear how DHCS will handle any outstanding balances due.

Random Moment Time Survey (RMTS) Integration with LEA Billing

Since 2015, the DHCS has been working on a state plan amendment to integrate the LEA Billing Option Program into the RMTS methodology currently in use with the SMAA program. DHCS is planning for this integration to occur with the 2019-20 school year. School districts will need to work with their local LEC or LGA to ensure continued participation in both programs.

Office of Inspector General (OIG) December 2018 Report

In December 2018 the Office of Inspector General (OIG) with the Department of Health and Human Services issued a report summarizing reviews performed of 10 state Medicaid agencies from July 2003 through June 2015. The report identifies vulnerabilities in the use of RMTS and opportunities for CMS to improve its oversight. Please see the following link for the full report: https://oig.hhs.gov/oas/reports/region7/71804107.pdf. DHCS is in the process of creating a workgroup to review the report and address any areas of concern for California.

Summary

The Common Message is devised to assist LEAs in developing budgets and interim reports. How this information affects each LEA is unique. With this in mind, LEAs should evaluate their individual educational and financial risks.