

The Marin Common Message

May Revision 2018

MARIN COUNTY OFFICE OF EDUCATION

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Introduction

This edition of the Common Message contains information related to the May Revision for 2018 and is intended to provide guidance for LEAs to use in developing their 2018-19 preliminary budgets and associated multiyear projections.

2018-19 May Revision Key Guidance

The May Revision confirms that General Fund revenue assumptions have increased substantially since the release of the Governor's January budget. The administration attributes these gains primarily to short-term personal and corporate income gains stemming from the 2017 stock market rally and the federal tax cut enacted last December.

Because of the strong revenues from January to May, the May Revision maintains full funding of the Local Control Funding Formula (LCFF) and the Rainy Day Budget Reserve (Prop. 2, 2014). As with the January proposed budget, the Governor warns that California will soon face an economic downturn, noting that California's economic recovery has lasted four years longer than average and that "now is a time to save; not a time to make pricey new promises we can't keep." Accordingly, the Governor stated that most of the revenue increases that have materialized since January will be invested in one-time expenditures and paying down debts and liabilities.

Fiscal prudence is in order as uncertainty exists surrounding several significant administration proposals and assumptions for the 2018-19 budget:

- The proposed \$2.042 billion in one-time discretionary funding will be the budget balancer used to address legislative priorities. LEAs 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 using one-time funds.
- While the governor's May Revision continues to project a slight increase in current year ADA (0.01%), the K-14 (Prop. 98) guarantee may be subject to a reduction of approximately \$230 million in January, based on actual declining attendance data reported by the CDE at P-1.
- 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.

Funding Adjustments Introduced in the May Revision

LCFF Gap Funding: Increases LCFF funding to \$3.16 billion – an additional \$320 million above the January budget. This increase funds the 2.71% COLA, fully funds the original formula targets for all districts and augments the formula by another \$166 million.

One-Time Funding: An additional \$286 million, providing a total of 2.042 billion in one-time discretionary funding (\$344 per ADA) for school districts, charter schools and county offices of education.

Cost-of-Living Adjustments: An increase of \$10.6 million in Prop. 98 spending in selected categorical programs for 2018-19 to reflect a change in the cost-of-living factor from 2.51% at the Governor's Budget to 2.71% at the May Revision.

K-12 Strong Workforce Program: The May Revision continues the \$212 million Strong Workforce Program as proposed in January, but amends the proposal.

Fiscal Transparency: Expands upon the Governor's January budget proposal for a budget summary aligning school district expenditures to LCAP strategies to specify that it is parent-friendly, includes specific information on how supplemental grants are used to increase and improve services for high-need students, and contains graphical representation of information. These May revision changes, paired with the Community Engagement Initiative and the Governor's budget proposal to make the Dashboard more user-friendly, are intended to improve the ability of parents and community members to be partners in the LCAP decision-making process.

Federal Restart Grant: An increase of \$13.9 million in one-time federal funds to assist LEAs with expenses related to reopening schools impacted by the Northern California and Southern California wildfires of October and December 2017.

Fire-Related Property Tax Backfill: An increase in Prop. 98 spending of \$12.3 million in 2017-18 and \$17.8 million in 2018-19 to backfill lost property tax revenue for K-12 schools impacted by last fall's wildfires.

Planning Factors for 2018-19 and MYPs

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

Planning Factor	2018-19	2019-20	2020-21
Statutory COLA (Department of Finance – DOF)	2.71%	2.57%	2.67%
LCFF Funding % including \$166M Augmentation	3.00%	-	-
LCFF Gap Funding Percentage (DOF)	100.00%	-	-
LCFF Gap Funding (in millions)	\$3,160	-	-
STRS Employer Statutory Rates (statute until 2020-21)	16.28%	18.13%	19.10%
PERS Employer Projected Rates (April 17, 2018)	18.062%	20.8%	23.5%
Lottery – Unrestricted per ADA (did not change)	\$146.00	\$146.00	\$146.00
Lottery – Prop. 20 per ADA (did not change)	\$48.00	\$48.00	\$48.00
Mandated Cost per ADA for One-Time	\$344.00		
Mandated Block Grant for Districts – K-8 per ADA (increase by COLA 2.71%, etc.)	\$31.16	\$31.16	\$31.16
Mandated Block Grant for Districts – 9-12 per ADA (increase by COLA 2.71%, etc.)	\$59.83	\$59.83	\$59.83
Mandated Block Grant for Charters – K-8 per ADA (increase by COLA 2.71%, etc.)	\$16.33	\$16.33	\$16.33
Mandated Block Grant for Charters – 9-12 per ADA (increase by COLA 2.71%, etc.)	\$45.23	\$45.23	\$45.23

State Preschool (CSPP) Part-Day Daily Reimbursement Rate	\$29.90	\$29.90	\$29.90
State Preschool (CSPP) Full-Day Daily Reimbursement Rate	\$48.28	\$48.28	\$48.28
General Child Care (CCTR) Daily Reimbursement Rate	\$47.98	\$47.98	\$47.98
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. If district received Prop. 51 funds in 2017-18, 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

Reserves

County offices continue to reinforce the need for reserves in excess of the minimum reserve for economic uncertainty. The state-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 May Revision budget proposal assumes accelerating economic expansion in 2018-19 and then a gradual slowing thereafter, 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 \$17 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, may 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 (EC 42127.01) is not operable in the current year or in 2018-19. The Public School System Stabilization Account (PSSSA) must contain a balance of 3% or greater of the Prop. 98 amount in that year to trigger the reserve cap in the following year, and the PSSSA balance is currently zero. 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

The May Revision funds the statutory COLA of 2.71%, fully funds the LCFF gap and includes an augmentation of \$166 million. Nonetheless, it is difficult to provide all of the desired services for students. LEAs should evaluate the increases in all costs before determining if any new or additional costs can be afforded. The year-over-year increased rates for CalSTRS and CalPERS result in one of the fastest growing expenses for LEAs, in amounts that may exceed the amount of new revenues in the very near future.

Total compensation must be considered in approaching negotiations. In reviewing existing total compensation, it is important for LEAs to keep in mind their current Dashboard results and what services or changes might need to be made to increase results. In addition, the Local Control Accountability Plan (LCAP) that LEAs are currently revising will most likely contain actions and services that will need to be included in the budget. Increases in ongoing expenditures as well as expenditures associated with the LCAP should be measured against the increase in LCFF revenues to determine affordability of any ongoing increase in salaries.

Any negotiated increases to the salary schedule require ongoing revenue sources. The repetitive nature of the one-time funds LEAs have received for the last several years and are proposed once again in the 2018-19 Governor's Budget creates pressure to use these revenues for ongoing expenditures such as salary increases. While the one-time funds would again provide welcome relief for many LEAs in 2018-19, the relief is temporary.

Negotiations become riskier as the economic outlook becomes more uncertain. LEAs must be prepared to respond to requests for increasing compensation. This begins with including all costs for all actions necessary to increase student achievement in 2018-19. The actions and services necessary to meet the goals of the LEA's LCAP will guide the budget and assist in determining if any increase in total compensation is affordable. When this analysis is performed on a multiyear basis and coupled with an estimate of annual unrestricted revenue sources, many LEAs are facing necessary budget reductions to maintain fiscal solvency. When an ongoing increase is added to the analysis, an LEA that has otherwise balanced its budget will face future year deficits. Salary schedule increases in the budget year will, therefore, likely increase budget reductions in the future for many LEAs.

Early Childhood Education

Child Care and State Preschool

The Governor's January budget included increased child care and State Preschool provider reimbursement rates and expanded access for families. The Governor also proposed the creation of the Inclusive Early Education Expansion Program, a one-time funded program to provide services to children in low-income and high-need communities. The May Revision does not make substantial changes to the January proposal other than adjustments for a higher COLA and a funding change to the Inclusive Early Education Expansion Program.

Significant Adjustments:

- An increase of \$2.2 million in Prop. 98 spending and \$1.8 million in non-Prop. 98 General Fund spending to reflect an increase in the COLA from 2.51% to 2.71% *for a total year-over-year increase of \$54 million.*
- CalWORKs Stage 2 and Stage 3 Child Care – A net increase of \$104 million over the January proposal in non-Prop. 98 General Fund spending in 2018-19 to reflect increases in the number of CalWORKs child care cases and cost of care. Total costs for Stage 2 and 3 are now \$559.1 million and \$398 million, respectively.

- Inclusive Early Education Expansion Program:
 - A decrease of \$42.2 million federal Temporary Assistance to Needy Families (TANF) to remove one-time funds that are no longer available for this program, and an increase of a like amount in Prop. 98 funding to backfill this reduction.
 - Amendments to trailer bill legislation to: (1) clarify the definitions of inclusive programs and children with exceptional needs, (2) clarify the intent of professional development for staff to develop best practices for inclusion, (3) specify that applicants will need to demonstrate how they will consult with special education experts when determining how to expend funds, (4) prioritize applicants that demonstrate the ability to serve a range of disability types and a proportion of children with disabilities consistent with the regional rate of identification, (5) specify that grant funds may be used for universal design practices, (6) specify that grant recipients must participate in program evaluation activities, (7) specify that up to 1% of program funds may be used for a program evaluation, and (8) remove federal TANF funding from the program.

LCAP – Budget Implications and Considerations

The May Revision provides more information regarding fiscal transparency requirements included in the Governor’s Budget proposal. The state Superintendent of Public Instruction, subject to approval by the State Board of Education, will develop a template before January 30, 2019 for the “LCFF Budget Overview for Parents” as outlined in the 2018-19 budget trailer bills. This summary document will be effective for the July 1, 2019 budget. In the interim, the Department of Finance has released a sample of what a parent-friendly overview may look like, with a caution that the sample has not been subject to stakeholder input and will likely change.

The parent-friendly LCFF budget overview includes a combination of graphs and text descriptions of different components of district budgets and LCAPs. A summary of the data elements is included below:

- Projected General Fund revenue sources for ensuing year
 - Graph of funding sources and proportionate share of overall revenue
 - Projected LCFF funding
 - Graph showing proportion of LCFF funding that is base vs. supplemental/concentration funding
 - Brief description of funding for all students and funding received for high-needs students
 - Description of increased or improved services using these funds
 - Federal

- Other state
- Other local
- Brief description
- Projected General Fund expenditures for ensuing year
 - Graph of expenditures included in LCAP vs. not included in LCAP
 - Goals in the LCAP
 - Planned actions and services in the LCAP that contribute to increased or improved services to unduplicated pupils
 - Brief description of expenditures not included in LCAP and why
- Estimated LCAP expenditures for existing year
 - Graph showing budgeted expenditures vs. estimated actual expenditures for planned actions and services in the LCAP that contribute to increased or improved services to unduplicated pupils
 - Description of differences, including impact to planned actions and services that contribute toward increased or improved services

Many of the items listed above are already included in the Plan Summary and Annual Update sections of district LCAPs, and the July 1 Adopted Budget. The fiscal transparency requirement would require districts to create a graphical view of this information, which is more easily understood by parents and stakeholders.

See pages of sample charts at the end of this document.

K-12 Strong Workforce Program – Career Technical Education

The Governor continues to propose \$200 million in ongoing funding for a K-12 component of the Strong Workforce Program – allocated by consortia through a competitive grant process – to create, support, or expand career technical education (CTE) programs at the K-12 level that align with the workforce development efforts occurring through the Strong Workforce Program operated by the California Community Colleges. The Governor’s representatives have made it clear that the administration does not support the extension of other one-time approaches to funding CTE such as the CTE Incentive Grant program.

The May Revision made the following adjustments and clarifications to the K-12 Strong Workforce Proposal.

- It clarified that grant decisions for the K-12 component will be made exclusively by the K-12 Selection Committee specified in the trailer bill language.
- It separated the requirements of the K-12 component of the Strong Workforce Program from the community college component for clarity.
- It expanded and clarified technical assistance roles within the program.
- It provided additional resources to consortia for administering the regional grant process, including resources to support the K-12 Selection Committee duties.

Emergency Impact Aid for Displaced Students

Eligible LEAs in these counties that experienced the wildfires of 2017 have a federal one-time funding opportunity: Butte, Lake, Los Angeles, Mendocino, Napa, Nevada, Orange, San Diego, Santa Barbara, Sonoma, Ventura and Yuba. CDE has developed a website with the funding application and details. The timeline is tight as applications are due to CDE by May 24, 2018 and all revisions to the applications are due June 25, 2018.

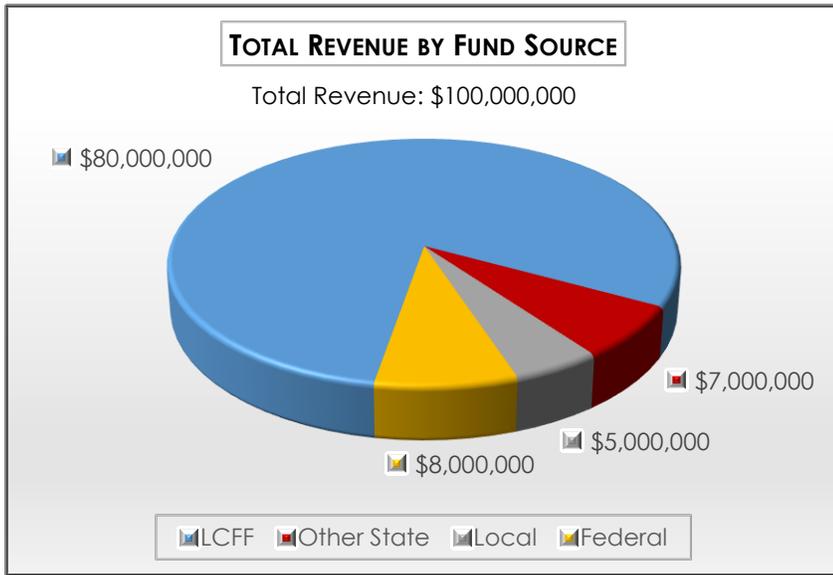
LEA and nonpublic schools may receive up to \$10,000 per student displaced by the wildfires of 2017. “Displaced student” is defined as a student who enrolled in an elementary school or secondary school because the student resides or resided in an area for which a major disaster or emergency was declared by the President. The receiving LEA or school site for the eligible newly enrolled student would receive the funding. Displaced student enrollment might occur within the same LEA by the displaced student enrolling in a different school due to the fire; or a displaced student might enroll in a school of a different LEA from which they resided or attended one week prior to the date of the fire.

More details on the eligibility criteria and the application for funding is available on CDE’s website at <http://www.cde.ca.gov/ls/fa/sf/eiadsdp2018.asp>. Questions may be emailed to EmergencyServices@cde.ca.gov.

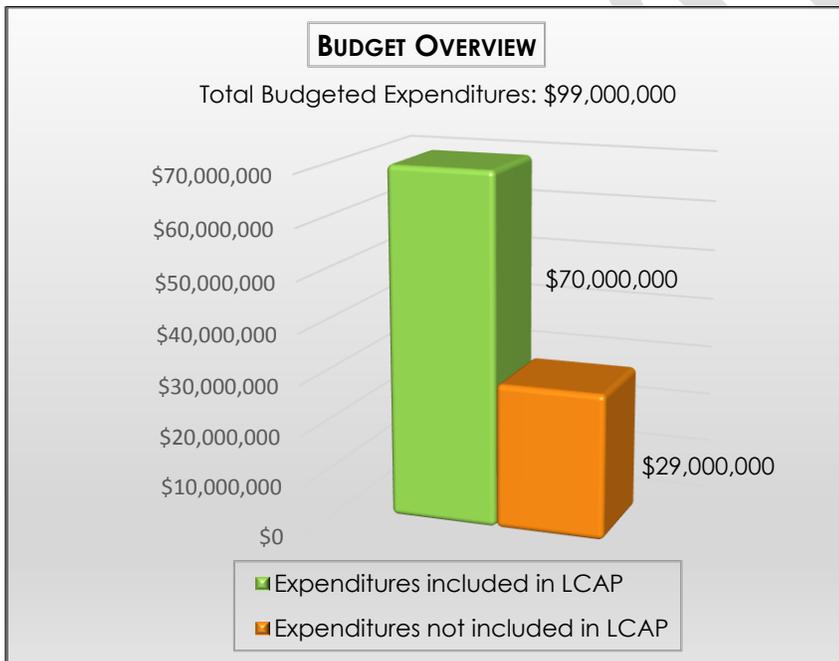
Summary

As stated in the Introduction, this edition of the Common Message contains information for LEAs to utilize in preparing their 2018-19 preliminary budgets. It is imperative for LEAs to stay well informed, consider the impact of proposed and potential changes, both fiscal and programmatic, and adapt accordingly.

Budget Overview for 2018-19



Total revenue for the school district is \$100,000,000, of which \$80,000,000 is Local Control Funding Formula (LCFF), \$7,000,000 is other state funds, \$5,000,000 is local funds, and \$8,000,000 is federal funds.



The funds not included in the Local Control and Accountability Plan (LCAP) support the school district's physical plant, debt service, and a share of personnel costs.

About This Section

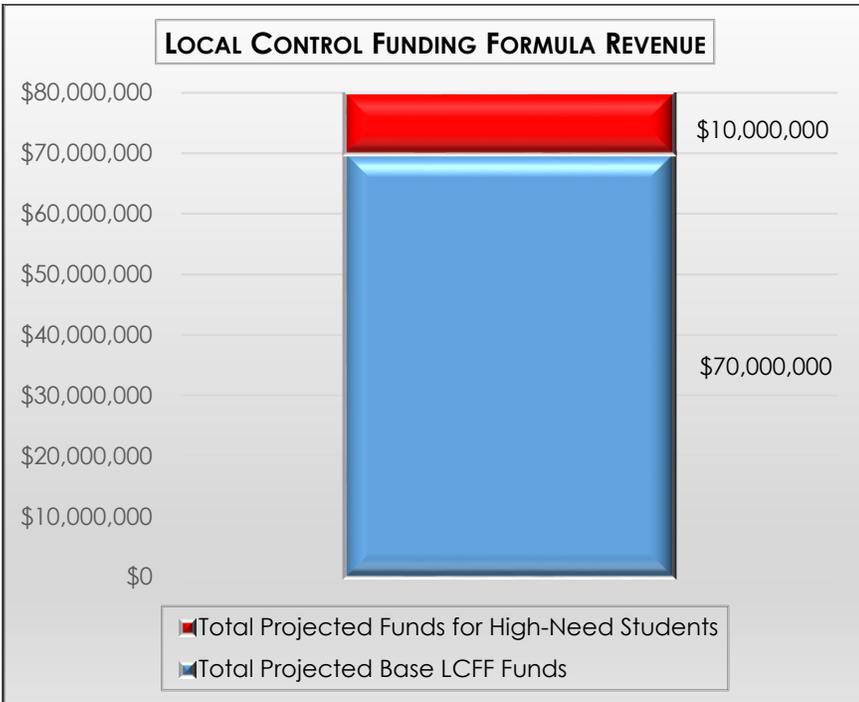
School districts receive funding from different sources: state funds under the Local Control Funding Formula (LCFF), other state funds, local funds, and federal funds. Some of these funds are restricted to specific purposes.

The chart to the upper left shows the total general purpose revenue the school district expects to receive from all sources.

The LCFF gives school districts more flexibility in deciding how to use state funds. In exchange, school districts must work with parents, educators, students, and the community to develop a Local Control and Accountability Plan (LCAP) that shows how they will use these funds to serve students.

The chart to the lower left provides a quick summary of how much the school district plans to spend for 2018-19. It shows how much of the total is tied to planned actions in the LCAP and how much is not.

The Local Control Funding Formula: Increased or Improved Services for High-Need Students in 2018-19



About This Section

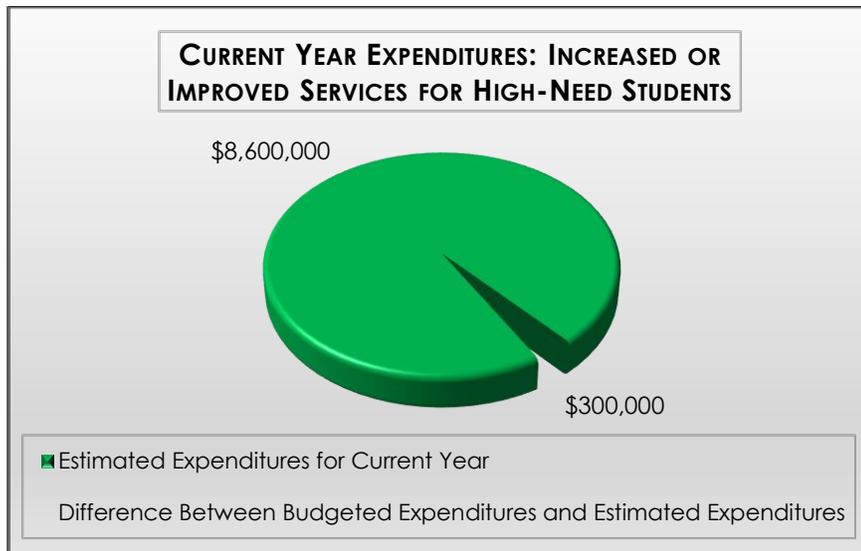
The chart to the left shows the total projected LCFF revenue for the school district. This includes base funding as well as funding based on how many high-need students (low-income students, English learners, and foster youth) the school district serves. The school district must increase or improve services for high-need students compared to the services all students receive in proportion to the increase in funding it receives for high-need students.

Services can be increased through additional expenditures and improved through changes in program or policy that do not have costs. If the LCAP includes no-cost improved services for high-need students, these are described in a second paragraph below the chart.

The school district projects receiving \$80,000,000 under the Local Control Funding Formula. This includes \$10,000,000 that is based on how many high-need students the school district serves. As a result, the school district must demonstrate a plan to provide additional services that, together with the planned spending, increase or improve the services for high-need students by a total of 12.5%. In its LCAP, the school district plans to spend \$9,000,000 on actions that increase or improve services for high-need students. This planned spending is less than \$10,000,000.

The school district must demonstrate an additional improvement in services that, together with the planned spending, increase or improve the services for high-need students by a total of 12.5%. The additional improved services described in the school district's LCAP include modified course schedules to allow more focused instruction for high-need students, as well as modifying policies for behavior supports and discipline to complement implementation of PBIS and the addition of staff for that program.

Update on Increased or Improved Services for High-Need Students in 2017-18



The 2017-18 school district LCAP included \$8,900,000 in planned expenditures for increased or improved services for high-need students. The school district projects that in 2017-18 it will actually expend \$8,600,000 for increased or improved services for high-need students. The difference between the budgeted and actual expenditures is because the school district was unable to fill several student support services positions planned in the LCAP and because the school district received slightly less funding from the state than anticipated. These changes did not significantly impact the school district's ability to deliver the planned services.

About This Section

The chart to the left shows how the school district has implemented the actions in its LCAP that increase or improve services for high-need students in the current year.

After engaging with its community as part of the school district LCAP and budget development, the school district committed to a set of planned expenditures to increase or improve services for high-need students. This chart displays the estimated actual expenditures for those increased or improved services through the end of the current school year.

If the estimated actual expenditures are lower than the budgeted expenditures in the school district's LCAP, the chart shows the difference, and the school district includes an explanation of the difference below.