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

**Re: Local Control Funding Formula Budget Advisory
Supplement**

Background

This Budget Advisory Supplement provides information for the Local Control Funding Formula (LCFF). As local educational agencies (LEAs) estimate the impact of the LCFF on revenues, LEAs have had questions surrounding the mechanics of the formula relative to hold harmless, Average Daily Attendance (ADA) growth funding, charter schools, and California Longitudinal Pupil Achievement Data System (CALPADS), to name a few.

Discussions with the Department of Finance (DOF) have revealed the Administration's continued commitment towards hold harmless funding in addition to full funding of ADA growth. Finally, the DOF has shared their intent to release a Frequently Asked Questions (FAQ) in order to provide answers to these and other questions. Once released, this Budget Advisory Supplement will be re-released with the DOF's answers.

This Budget Advisory Supplement also provides information related to recent developments surrounding federal sequestration. Further, this supplement includes information related to the Education Protection Act (EPA), Tier III Flexibility and Economic Impact Aid (EIA) reporting requirements. EPA and Tier III both require board action before the end of the year; EIA requires the posting of expenditure and related fiscal information on LEA websites.

Finally, this supplement provides information on potential increases to CalSTRS and CalPERS.

The Local Control Funding Formula - Updates

Recognizing that the Governor's May Revision will be released in approximately one month, this supplement seeks to provide clarity on information related to CALPADS and California Department of Education (CDE) and DOF LCFF estimates. This information is intended to provide guidance for LEAs as they seek to better understand the formula as currently drafted. Further, we recognize that most LEAs will need to develop budgets using current law.

Through discussions with the DOF we anticipate revisions and cleanup to the current LCFF Trailer Bill. Because of this, we will release a full 2013-14 Budget Advisory after the release of the Governor's May Revision.

LCFF Estimates

Both the DOF and the CDE have released preliminary and comparative estimates for the LCFF.

Both sets of data are projected estimates only and should not be used for planning purposes.

At the request of the Legislative Analyst's Office, on April 2, 2013 the CDE released a report detailing district free and reduced price meals (FRPM) and English Learner (EL) percentages and estimating district revenues under current law and under LCFF. The estimated projections can be found at <http://www.cde.ca.gov/fg/fr/eb/documents/fundmdlfndngformula.xls>. The CDE used the following assumptions when building this side by side comparison:

CDE Current Law Estimates

- Restoration of deficits (approximately 22%) on revenue limit and categoricals
- No growth or decline in ADA
- 1.65% cost of living adjustment (COLA) for 2013-14
- An additional \$1,200 per ADA (equal distribution per ADA of the remaining amount of estimated Prop. 98 funding)
- The amounts are state entitlements only and do not account for property taxes

CDE LCFF Funding Model (2011-12 data):

<http://www.cde.ca.gov/fg/fr/eb/fundingformulaprojections.asp>

- Includes all K-12 enrollment data from CALPADS

- FRPM data is limited to eligible students ages 5-17. The data used was previously collected for ConApp, which is the basis for the age limitation.
- Full funding at target levels by end of phase-in period and includes COLA in 2013-14 but not subsequent years.
- The supplemental/concentration factor is calculated based on FRPM percentage plus 0.258 times the EL percentage because unduplicated counts are unavailable for the 2011-12 fiscal year.
- The projections are state entitlements only and do not account for property taxes. Minimum state aid for basic aid districts is calculated to equal state categorical aid in the base year including EPA funding.

DOF Side by Side Funding Comparison

On April 9, 2013 the DOF released a side-by-side comparison of funding each district could expect under the LCFF, revenue limit and categorical as currently enacted in law. These comparative charts can be found at <http://abgt.assembly.ca.gov/sub2hearingagendas> titled *Bonilla Top 50 and Bonilla All Districts*.

To calculate the potential funding under current law, the DOF used the following assumptions provided by the Assembly:

- Restore all deficits to the base revenue limit (22%) and categorical (approximately 20%).
- Provide COLA on the base revenue limit over the seven-year period totaling approximately a 12-14% increase based on a three-year rolling average COLA in the out years.
- No COLA adjustments for categorical.
- Approximately \$1,100 per ADA additional funding based on an estimated additional \$6.5 billion in Prop 98 guarantee.

These runs are not to be considered for planning purposes and are illustrative of potential funding differences under the proposed LCFF and current law.

CALPADS

LCFF and CALPADS

The Governor's proposed LCFF provides supplemental funding for students that are eligible for FRPM, are English Learners (EL), or foster youth. Because of this, the importance of the FRPM, EL and foster youth counts will increase.

LCFF and the 2013-14 Advance Apportionment

In the event the LCFF is passed and implemented in time for 2013-14, CDE reports the advance apportionment will be based on P-2 revenue limit and general purpose funding and will include categorical funding entitlements from 2012-13 that are not already paid within the principal apportionment. Further, the CDE reports that calculations will provide an increase for growth and COLA (currently estimated at \$1.6 billion) in proportion to revenue limits. At this point, P-1 apportionments would be the first point at which CDE could use CALPADS data. The CDE estimates they may base 2013-14 P-1 apportionment calculations using 2013-14 P-1 ADA and 2012-13 enrollment, FRPM, and EL counts from CALPADS using Fall 1 2012. Further they estimate that apportionments would be certified at P-2 using 2013-14 Fall 1 2013 data.

The CDE and DOF are also discussing possible data and timing adjustments that may be needed with implementation of the LCFF. These discussions include the development of an interim contingency plan for 2013-14 that may be used in calculating the P-1 apportionments so that CALPADS data and reporting periods align with the LCFF.

Unduplicated Counts

On March 18, 2013, the CDE released the [2012-13 Unduplicated Student Poverty & EL Designation Data](#). As described in the [CALPADS Update Flash #72](#), this downloadable file includes data for all schools other than provision 2 or 3 schools, as part of their 2012-13 Fall 1 submission. Since schools with a National School Lunch Program (NSLP) provision 2 or 3 status are prohibited from collecting FRPM applications for individual students, the file identifies which schools have a provision 2 or 3 status, and for those schools includes the percentages only of students eligible for free lunches or FRPM based on:

- Their base year percentage derived from October 2012 claims data reported to the CDE's Nutrition Services Division, or
- The base percentage certified in the Consolidated Application Reporting System (CARS) in 2011-12, whichever was higher.

It is not yet clear how provision 2 or 3 schools' FRPM counts for LCFF calculations will be obtained. The current CALPADS 5.1a Free or Reduced Price Meal Eligibility – Count Report reflects unduplicated counts for both ages 5-17 and grades K-12 (reflected in the Unduplicated Total columns of the report). K-12 is based on grade, not age, so 4-year-olds in kindergarten and 18-22-year-olds in grade 12 and/or “ungraded” are counted.

Although correcting spring 2013 CALPADS reporting to more accurately reflect district data is important, it is imperative that districts develop or refine their system for accurately gathering, reporting, and certifying data in CALPADS now and in the future. Districts should consider printing the CALPADS report and comparing it to the FRPM and EL counts as reported in the district student information system. Additionally, districts should consider having the EL coordinator and administrator of the child nutrition program review and certify that the CALPADS report accurately reflects the student population.

OCDE will be hosting a CALPADS workshop presented by the Fiscal Crisis and Management Assistance Team (FCMAT) on May 13, 2013 that will assist LEAs in understanding how to review and report CALPADS data.

Current CALPADS Data Use

The data certified in the CALPADS Annual Submissions are used for many purposes including funding calculations for various State and Federal programs. FCMAT/CSIS has prepared a table of reporting periods and associated state and federal program and data uses (Appendix A).

New CALPADS Functionality: County and Authorizing LEA Reports

The LCFF will require COEs to certify unduplicated LEA counts. [*CALPADS Update Flash 73*](#) recently announced that county offices of education will have access to certified reports for all LEAs and independently reporting charter schools in the county. Access to these reports will be set by the LEA administrator.

These reports will be the same as existing certification reports, but will be aggregated to the LEA level and will drill down to the school level. Only certified data will be reflected.

Revenue Limit Calculations & the LCFF

Under the Governor's LCFF proposal, most revenue limit add-ons would be eliminated. This includes the elimination of the revenue limit adjustment for State Unemployment Insurance (UI), PERS Reduction, Meals for Needy Pupils, and Beginning Teacher Salary. The current level of funding for these programs is folded into the LCFF. These amounts would no longer be adjusted for changes in districts' UI expenditures or in PERS contribution rates; thus districts will be expected to cover any increased costs associated with increased unemployment insurance expenses, PERS rate increases or other district specific adjustments as currently applied to district revenue limit calculations.

Education Protection Account (EPA)

The California Department of Education recently released information and frequently asked questions on the EPA. The [*Education Protection Account \(EPA\) Web page*](#) provides information on local educational agencies' EPA entitlements, the resulting impact to state funding, and FAQs. A calculator is also available to help LEAs estimate

their 2012-13 fiscal year EPA and principal apportionment entitlements and cash flow. These estimates may be included with EPA public posting requirements.

The language in the constitutional amendment requires that funds shall not be used for the salaries and benefits of administrators or any other administrative costs. LEA boards must make annual spending determinations in an open session at a public meeting. Districts are also required to annually post on their website an accounting of how much money was received from EPA and how that money was spent.

Tier III Flexibility Reporting Requirements

Current law (Education Code 42605) states that as a condition of the receipt of Tier III categorical program funding, the governing board of a school district or county office must hold a public hearing to discuss and approve or disapprove the proposed explicit use of each Tier III program's funding. This hearing must take place regardless of whether districts opt to use funds for their original purpose or for another purpose.

The Tier III public hearing must be held prior to and independent of a meeting at which the budget is adopted. AB 189 also requires a governing board to identify, in the notice of the public hearing, any Tier III program that is proposed to be closed. Noncompliance puts a district's entire Tier III entitlement at risk; thus it is critical to make sure that the public hearings are held and contain the required elements.

For fiscal years 2012-13 and beyond, the Education Audit Appeals Panel recently removed from the K-12 audit guide the requirement that auditors verify that a Tier III public hearing was held. Nonetheless, the legal requirements to comply with Education Code 42605 remain unchanged.

Economic Impact Aid (EIA) Reporting

Senate Bill (SB) 754 (Chapter 573, Statutes of 2012) requires school districts to post expenditure and related fiscal information on their websites to receive EIA funds. Compliance with this law will affect receipt of EIA funds beginning in 2013-14.

This information must be posted in an easily accessible location on school district websites. Because compliance with this provision is a condition of receipt of future EIA funding, the CDE will add a new certification in the Consolidated Application. Before applying for EIA funding for the 2013-14 fiscal year, districts will be required to sign an assurance in the Categorical Allocation and Reporting System submission due July 2013 indicating they have posted the required information for the 2012-13 and 2011-12 fiscal years.

More information can be found at <http://www.cde.ca.gov/fg/fo/r14/sb754ltr.asp>

Federal Sequestration

Although Congress has approved legislation (HR 933) that averts a government shutdown for fiscal year 2013, automatic sequestration cuts are still in place for 2013-14 school year unless Congress enacts and the President signs legislation that eliminates or reduces the sequestration cuts to education. Without Congressional action, with the exception of Federal Impact Aid, cuts to educational programs will impact local educational agency budgets for 2013-14. Federal Impact Aid cuts affect the current school year.

Ongoing sequestration reductions are still a real possibility. The Senate assumes that sequestration cuts will not take place after fiscal year 2013, while the House of Representatives assumes that the cuts will be implemented in fiscal year 2014 and beyond. Congress and the Administration still need to resolve the sequestration issue for subsequent years.

For 2013-14 budget development and multiyear planning, it is recommended that local educational agencies assume a 5.2% reduction in most federal programs for the 2013-14 school year budget and for subsequent fiscal years until Congress resolves sequestration issues.

Retirement

CalPERS

On April 17th, the PERS board voted to approve a new asset smoothing methodology that will be used to reach full funding of the plan over the next 30 years.

Under current statute, LEAs are responsible for a maximum of 13.02%. Current rates for 2012-13 are 11.417%. The PERS employer contribution rate for 2013-14 is expected to be approved at the May board meeting. The approved asset smoothing methodology is effective beginning with the 2015-16 fiscal year, with a starting rate of 13.30%. These rates are anticipated to climb, and are estimated to reach 18.9% in 2019-20.

With implementation of Local Control Funding Formula, PERS Revenue limit reduction is eliminated, increasing an LEA's exposure to the higher contribution rates listed above. Additional employer contributions should be anticipated when creating multi-year projections.

CalSTRS

On February 8, 2013, CalSTRS presented a draft report to reflect possibilities to strengthen the funded status of the defined benefit program. If not redefined, the program will deplete all of its assets in approximately 30 years. Many options are presented in the report, each of which utilizes a blended approach of increasing member, employer and state contributions. Some of the proposals in the draft include changes to employer contributions as early as 2014-15.

Districts need to exercise caution in preparing multiyear projections due to pension reform uncertainty and the potential for increased costs for both STRS and PERS employer benefit contributions in the coming years.

Summary

In its current form, some districts would receive no additional funding, while others would receive a significant down payment toward their LCFF targets. Based on the LCFF's hold harmless provision, no district will receive less in 2013-14 than it did in 2012-13. Under the proposed LCFF language, the amount of growth funding a school district receives will be determined by the proportional gap between its current level of funding and its new funding target.

Because this transitional period places schools between two methods of funding, districts need to continue to work closely with our office during budget development for 2013-14.

After the May Revision is released, we will distribute a full 2013-14 Budget Advisory document that will provide further information and guidance.

Enclosures

cc: Directors, Business Services
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How Certified CALPADS Data are Used and Consequences

The data certified in the CALPADS Annual Submissions are used for many purposes, including funding calculations for various State and Federal programs. Note that if an LEA does not certify one or more of the Annual Submissions they will be higher on the list for a compliance audit.

Annual Submission	State or Federal	State/Federal Data Usage	LEA Impact if Not Certified
Fall 1: <ul style="list-style-type: none"> 2012–13 enrollment counts 2011–12 Grads & Dropouts Immigrant counts Free and reduced meal counts 	State	DataQuest (Enrollment, Graduates, Dropouts, and SNOR)	0 counts
		School Accountability Report Card (SARC)	No SARC prepopulation
		Economic Impact Aid (EIA) funding calculation	0 counts & impact on funding for COEs operating Juvenile Court schools and EIA-designated small rural districts
		Quality Education Investment Act (QEIA) funding	0 counts & 0 funding
		Department of Finance for budget projections	0 counts
		To address requests from policy makers, researchers, and other entities	0 counts
	Federal	Adequate Yearly Progress (AYP) targets	Failed AYP & API
		Title I and Title II	0 counts & 0 funding for COEs and Direct Funded Charter schools
		NCLB Consolidated State Performance Report (CSPR)	0 counts
		NCLB Title III Immigrant Program (SNOR)	0 counts & 0 funding
		Titles VI & IX reports for the Civil Rights Act of 1964	0 counts
		Individuals with Disabilities Education Act (IDEA)	0 counts
		Various U.S. Department of Education (ED) organizational websites	0 counts
	Both	Eligibility to apply for various state and federal grants (especially those based on counts of socioeconomically disadvantaged students)	0 counts and ineligibility to apply for grants
Fall 2: <ul style="list-style-type: none"> Staff assignments Student course enrollments English Learner services Highly Qualified Teacher 	State	DataQuest (Teacher Counts, Course Enrollments, and EL Services)	0 counts
		CCR Title V, Section 97 (certificated staff)	0 counts
		EL Services	0 counts
	Federal	NCLB Consolidated State Performance Report (CSPR)	0 counts
Spring 1: <ul style="list-style-type: none"> Immigrant counts English Language Acquisition Status 	State	Highly Qualified Teacher (HQT)	0 counts and potential placement on sanction list
		DataQuest (EL and FEP Counts, and SNOR)	0 counts
	Federal	Economic Impact Aid (EIA) Program	0 counts & impact on funding
		NCLB Title III Limited English Proficiency Program	0 counts & 0 funding
		NCLB Title III Immigrant Program (SNOR)	0 counts & 0 funding

How Certified CALPADS Data are Used and Consequences

EOY-1: <ul style="list-style-type: none"> Course completion Career Technical Education (CTE) concentrators and completers 	State	DataQuest (Course Completion & CTE)	0 counts
	Federal	Carl Perkins Program (CTE Concentrators and Completers)	0 counts & grant eligibility
EOY-2: <ul style="list-style-type: none"> Program participation Homeless counts 	State	DataQuest (Programs and Homeless)	0 counts
		CAHSEE Intensive Instruction (AB 347) Valenzuela bill	0 counts
	Federal	NCLB Title 1 Part A Basic Grant	0 counts & grant eligibility
		Elementary and Secondary Education Act (ESEA) Title 1, Part A and Homeless Education	0 counts & grant eligibility
		NCLB Consolidated State Performance Report (CSPR)	0 counts
		McKinney Vento Grant	0 counts & grant eligibility
EOY-3: <ul style="list-style-type: none"> Student discipline 	State	DataQuest (Discipline)	0 counts
	Federal	NCLB Consolidated State Performance Report (CSPR)	0 counts
		NCLB Title IX - At Risk/Persistently Dangerous Schools	0 counts
		ESEA Title IV, Part A, Subpart 3, Section 4141 (e) - Firearm Offenses	0 counts
		Gun Free Schools Act Annual Survey	0 counts
EOY-4: <ul style="list-style-type: none"> Student waivers and exemptions 	State	DataQuest (Waivers and Exemptions)	0 counts
Assessments	State	School Accountability Report Card (SARC)	Assessment data is not certified, but if Suspense records are not fixed counts will be lower.
		Academic Performance Index (API) Base and Growth	
	Federal	Adequate Yearly Progress (AYP) targets	Enrollment and Exit data in the CALPADS Operational Data Store is used to determine continuous enrollment; STAR and CAHSEE scores of students not continuously enrolled will not be included in API and AYP calculations