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

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

Re: 2013-14 Budget Advisory – May Revise

This budget advisory provides information and guidance for Orange County K-12 school districts and is intended for use in preparing the 2013-14 July 1st budget and related multi-year projections (MYPs).

The advisory incorporates the Governor's 2013-14 May Revise and provides detailed information on the Local Control Funding Formula, cash management, categorical programs, child care, federal sequestration, special education, and many other topics.

As always, we encourage school districts to maintain best fiscal practices and be proactive in preserving fiscal solvency by developing contingency plans that allows the most flexibility possible.

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

Enclosures

cc: Directors, Business Services
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Introduction

On May 14, 2013, the Governor released the May Revision of the 2013-14 Budget. The Governor's Budget reflects newly emerging economic growth with projected increases in 2012-13 accompanied by projected declines in 2013-14. All the same, the May Revision to the Governor's Budget includes increased funding for schools, primarily directed toward implementation of the Local Control Funding Formula (LCFF). The Governor continues to demonstrate his commitment to passing this landmark school finance reform built around correcting historical inequities and increasing flexibility. Most notably, the Governor has demonstrated a clear intention to increase funding to schools by $1.9 billion and commits this increase toward implementation of the LCFF. Additionally, the Governor has pledged one-time money from 2012-13 for common core implementation.

The Governor's LCFF proposal is not without controversy and challenges. Over the next few weeks districts will continue to design, develop and ultimately adopt budgets while the legislature and Governor decide on the final form of the LCFF.

Proposition 98

For 2012-13, and as compared to the January budget proposal, state revenues are projected to climb by $3.2 billion primarily because of higher personal income taxes. The increase in revenue drives Proposition 98 upward. In addition, it triggers the pay-down provisions of the Proposition 98 maintenance factor. The maintenance factor is an accounting of the amount Proposition 98 is underfunded from years in which state growth was slower than per-capita personal income. Proposition 98 in 2012-13 is projected to increase by $2.9 billion as compared to the January budget proposal.

Fiscal Year 2012-13	Projected Statewide Revenue	Prop 98 Calculation	Property Tax Portion of Prop 98	State Budget Portion of Prop 98	Non-Prop 98 Budget	Ending Balance
January	95.4	53.6	16.1	37.5	55.4	.8
May	98.2	56.5	16.1	40.4	55.2	.9
Change	+ 3.2	+2.9	0	+2.9	- 0.2	+ 0.1

(all numbers in billions)

For budget year 2013-14, and as compared to the January budget proposal, state revenues are projected to fall by $1.3 billion. This is significant because the Governor is not projecting additional 2013-14 revenue as a result of the large increases in personal income tax (PIT) since his January budget proposal, and is projecting less revenue for 2013-14 than he did in January. In other words, he is viewing the large increases in revenue seen in January as one-time and he is viewing the economy as having taken on a less robust outlook over the last five months. Utilizing the Governor's 2013-14 revenue assumptions, Proposition 98 in 2013-14 is projected to decline by $0.9 billion as compared to the January budget proposal.

Fiscal Year '13-14	**Projected Statewide Revenue**	**Prop 98 Calculation**	**Property tax portion of Prop 98**	**State Budget portion of Prop 98**	**Non-Prop 98 Budget**	**Ending Balance**
January	98.5	56.2	15.4	40.9	56.8	1.6
May	97.2	55.3	16.0	39.3	57.0	1.7
Change	- 1.3	- 0.9	+ 0.6	- 1.6	+ 0.2	+ 0.1

(all numbers in billions)

For the budget year, '13-14, and as compared to the January budget proposal, state revenues are projected to **fall** by $1.3 billion. *This is significant.* Not only is the Governor *not* projecting additional 2013-14 revenue as a result of the large increases in PIT since his January budget proposal – he is projecting less revenue for 2013-14 than he did in January. In other words, he is viewing the large increases in revenue seen in January as one-time **and** he is viewing the economy as having taken on a less robust outlook over the last five months. As a result of the Governor's 2013-14 revenue assumptions, Proposition 98 in 2013-14 is projected to decline by $0.9 billion as compared to the January budget proposal.

A combination of economic factors indicate there could be changes in the statewide budget and K-12's share of that budget over the next month, with a high degree of upside uncertainty and a very low degree of downside uncertainty.

Local Control Funding Formula

The LCFF is substantively unchanged at May Revision although the language has undergone technical cleanup since the release of the Governor's January Budget proposal. The formula provides a base grant and a grade-span grant that both increase by COLA annually starting in 2013-14 as follows:

Grade Level	Base	Grade Span
Grades K-3	$6,441	$723
Grades 4-6	$6,538	
Grades 7-8	$6,732	
Grades 9-12	$7,800	$218

The formula continues to provide supplemental funding of 35% of the base grant for the district's percentage of unduplicated pupils and a concentration grant for districts with 50% or more unduplicated pupils. The concentration grant is calculated as 35% of the base grant for the population of unduplicated students in excess of 50%. For example, in a district with a student population that is 80% unduplicated pupils, the district's LCFF concentration grant would be 35% of the base grant by grade level multiplied by 30% (80%-50%). The product of this calculation is then multiplied by ADA.

These ADA-driven amounts are then augmented by the 2012-13 Home-to-School Transportation award and the 2012-13 Targeted Instructional Improvement Grant (TIIG) as reduced by fair share for basic aid districts.

Transitioning to the LCFF

During the transition period a district's LCFF grant starts with historical funding for state aid, as amended for growth (or decline) in ADA, and most state categorical programs. This total is then subtracted from the district or charter school's target LCFF grant amount to measure the funding gap. The percentage of gap funding provided in that year's budget is then added to the historical base to arrive at the LCFF transition grant for 2013-14.

Beginning in 2014-15, the prior year's gap funding is added to the historical 2012-13 base after adjusting for growth or decline in ADA. The 2012-13 base is then measured against the LCFF target to determine the new gap. The funded gap is added to the base to arrive at the total LCFF transition grant for that year. This cycle continues adding gap funding to the base as ongoing revenues until the LCFF is fully funded.

Year-to-year growth in Proposition 98 revenues would fund the gap each year until the LCFF is fully funded. Any further increases in Proposition 98 funding would be allocated through the LCFF. The May Revision increases the amount available to fund the collective gap between historical 2012-13 funding and the LCFF by $240 million to $1.9 billion. This is sufficient to fund approximately 11.5% of the gap in 2013-14.

Changes at May Revision

The new language clarifies issues that were raised in conversation with the Department of Finance (DOF) over the last few months. Those issues and DOF's responses were published in a Frequently Asked Questions (FAQ) format with the recent April Supplement to our second interim budget advisory. The trailer bill confirms the DOF's responses and provides a clearer methodology for calculating the LCFF during the transition period. The material changes incorporated into the May Revision are:

- The percentage of unduplicated pupils is calculated on a three-year rolling average. 2013-14 would be measured on that year alone, 2014-15 would be calculated as a two-year average, and all years thereafter would use a three-year average.
- ADA growth is funded in the transition period by calculating the 2012-13 per ADA amount of revenue limit (exclusive of Necessary Small School) or charter general purpose block grant and multiplying by current year ADA.
- Prior year gap funding added to the base is similarly calculated as the prior year amount per ADA multiplied by current year ADA.
- Amendments are made to the language pertaining to maintaining smaller class sizes in grades K-3 to measure average enrollment on a schoolwide basis rather than each individual class.
- Community Day School Mandatorily Expelled Students is added to the categorical programs included in the LCFF transition grant.

Charter Schools and Basic Aid Districts

- The method to calculate the in-lieu transfer to charter schools has been amended to use the base and grade-span components of the charter's LCFF funding as the new definition of statewide average funding once the LCFF is fully implemented.
- During the implementation period the statewide average is replaced by the charter's specific total LCFF transition grant multiplied by the ratio of the charter's LCFF transition grant to the charter's target grant. If the charter's LCFF transition grant is 80% of the LCFF target, the maximum in-lieu transfer would be 80% of the charter's LCFF transition grant.

Basic Aid Districts

- Charter supplemental grants, basic aid district of choice and court-ordered choice grants are calculated outside the LCFF and added to a district's total funding.
- The fair share reduction for basic aid districts is calculated as 8.92% of 2012-13 revenue limits as limited by the amount of excess property tax and the amount of categoricals included in the LCFF transition grant.

Business & Administrative Steering Committee (BASC) of the California County Superintendents Educational Services Association (CCSESA) LCFF MYP Calculator

The BASC has developed a LCFF MYP Calculator designed to calculate the LCFF for 2013-14, 2014-15, and 2015-16. The calculator accommodates all types of districts, including basic aid districts, and necessary small schools, as well as charter schools. Further, this tool provides input fields to incorporate year-to-year changes in COLA, ADA, property taxes, unduplicated counts and LCFF implementation (gap) funding. Finally, the calculator incorporates the hold harmless aspects of the LCFF and EPA funding.

The BASC LCFF Calculator has been verified by the DOF, which has confirmed that it incorporates the provisions of the May Revision LCFF Trailer Bill. In addition to calculating individual district, charter and necessary small school funding under the LCFF, the calculator also provides year-to-year funding percentage increases.

Cost of Living Adjustments (COLA)

The Governor's May Revision provides cost of living adjustments (COLA) for school districts and county offices of education base funding through implementation of the LCFF. Further, the May Revision decreases funding by $2.9 million to selected categorical programs for 2013-14 based on the lowering of the COLA factor from 1.65% to 1.565%.

Under the LCFF, the COLA of 1.565% is applied to the entitlement targets and funded at 11.5% of the difference between 2012-13 revenues and the target amounts. This yields an effective funded COLA of about .18% when measured against the amount of gap funding. Using the BASC LCFF Calculator will yield specific percentage funding increases for individual districts and charter schools.

Districts whose current funding exceeds the LCFF target amount (hold harmless) would receive no COLA.

The Situational Guidance and Multiyear Projection section of this budget advisory discusses potential COLAs in the subsequent years. Moreover, the BASC LCFF Calculator will produce each district's individual percentage increase.

Supplemental and Concentration Grants

Education Code Section 42238.02 increases the LCFF base grant by a supplemental grant and a concentration grant. These are determined by the district's or charter school's unduplicated count of pupils who are eligible for free and reduced price meals, or who are classified as English Learners, or as Foster Youth. The funding provided under these calculations may be used for any locally determined educational purpose as long as it substantially benefits the unduplicated pupils that generate the funds as provided for in the school district's or charter school's local control and accountability plan, beginning in 2014-15.

The Superintendent of Public Instruction would annually compute the percentage of unduplicated count using the criteria above, utilizing data reported through California

Longitudinal Pupil Achievement Data System (CALPADS). A pupil who is identified in more than one category would only be counted once in determining the unduplicated pupil count. This data is subject to annual review and verification by the county office of education and would be subject to audit under the state audit guidelines.

The unduplicated pupil count percentage would be computed as follows:

For the 2013-14 fiscal year, divide the total sum of unduplicated pupil counts for the 2013-14 fiscal year by the total enrollment for the 2013-14 fiscal year.

1. For the 2014-15 fiscal year, calculate the total unduplicated pupil count for both 2013-14 and 2014-15 and divide by the total enrollment for both 2013-14 and 2014-15.
2. For the 2015-16 fiscal year and thereafter, calculate the total unduplicated pupil count for the current and two previous fiscal years and divide by the total enrollment for the current and two prior fiscal years.

Pupils classified as English Learners would only be eligible for supplemental and concentration grant funding for seven school years. Beginning with the seventh school year in which the student is classified as English Learner by any district, charter school or county office of education, the pupil would only be included in the unduplicated count if they meet eligibility for free and reduced price meals or are identified as a foster youth. The Superintendent of Public Instruction would identify the initial year of classification as an English Learner.

The supplemental grant is equal to the grade span base grant for each applicable grade level multiplied by 35%. This amount is multiplied by the unduplicated pupil count percentage calculated above.

If the district's or charter school's unduplicated pupil count percentage exceeds 50% then a concentration grant would be added to the base grant. The concentration grant is equal to the grade span base grant for each applicable grade level multiplied by 35%. This amount would be multiplied by the percentage that exceeds 50%.

For a charter school physically located in one school district, the charter school's percentage of unduplicated pupils in excess of 50% used to calculate the concentration grant could not exceed the percentage of unduplicated pupils in excess of 50% of the school district in which the charter is located. If the charter school is physically located in more than one school district, the charter's percentage of unduplicated pupil count in excess of 50% could not exceed that of the school district with the highest percentage of unduplicated pupil count in excess of 50%.

Hold Harmless

Per the LCFF, local education agencies are to receive minimum state funding of no less than the total received in the 2012-13 fiscal year.

The calculation of the "hold harmless" is made on a per-ADA basis and is a combination of the following funding sources:

- All revenue limits received in 2012-13 divided by 2012-13 ADA, multiplied by current funded ADA.
- All 2012-13 state categorical funding (including funding received for mandatorily expelled community day school pupils).
  - See Appendix A for full list of categorical programs included in the calculation.
- For basic aid districts the categorical programs are subject to an 8.92% fair share reduction, calculated on the 2012-13 revenue limit entitlement
  - See Appendix A for full list of categorical programs included in the calculation.
- For charter schools, all charter general purpose block grant received in 2012-13 divided by 2012-13 ADA, multiplied by current ADA.

K-3 Class Size Augmentation

The base grant for the K-3 grade span increases by an add-on of 11.23% for reduction of class sizes in these grades to an average by school site of no more than 24:1 (or a locally bargained alternative ratio) at full implementation of the LCFF.

During implementation of the LCFF and as a condition of receipt of this add-on, districts would be required to either:

1. Have a class size ratio of 24:1 or less at each school site in 2012-13 and maintain that ratio in the future,
2. Collectively bargain an alternative class size ratio for this grade span, or
3. Show adequate progress toward meeting the goal of 24:1 each year until full implementation of the LCFF.

Districts that meet the requirements of No. 1 and/or No. 2 above are exempt from the requirements of No. 3. However, school districts must maintain class enrollment per school site of not more than 24 unless collectively bargained.

Districts that do not meet No. 1 and/or No. 2 above would be required to demonstrate adequate progress toward reducing class sizes to 24:1. If a district's LCFF gap funding is negative or zero, the district must maintain the same class enrollment for each school site in the 2012-13 year, unless there is a collectively bargained alternative ratio. Adequate progress is determined by:

- School site does not exceed 24.4, or
- An alternative average class enrollment for each school site pursuant to the district's collective bargaining agreement.

To calculate the total funding gap between the LCFF full funding calculation and the 2012-13 Hold Harmless amount:

1. Divide the amount of funding received specifically to reduce the funding gap by the total funding gap amount to determine the percentage of progress toward full funding.
2. Subtract the target average class enrollment of 24 from the average class enrollment by school site for grades K-3 in 2012-13 to determine the difference.
3. Multiply the difference calculated in No. 2 by the percentage determined in No. 1.

For example, if a district's total funding gap is $1 million, it receives $100,000 in 2013-14 as funding to close that gap and has a class size ratio of 30:1 for grades K-3 in 2012-13, the 2013-14 class size adjustment would be calculated as follows:

1. Gap funding received ($100,000) divided by total funding gap ($1 million) = 10%
2. 2012-13 class size (30) minus target class size (24) = 6
3. Adjustment that must be made to 2013-14 class sizes to receive funding - 6 x 10% = 0.6
4. Class size ratio necessary to receive funding in 2013-14 = 30 – 0.6 = 29.4

Although this does not reflect the language in the trailer bill, the DOF has indicated it is the intent. The trailer bill will require clean up language to reflect the above formula.

Class sizes for grades K-3, as established by this section, would no longer be subject to waiver by the State Board of Education pursuant to Section 33050 or by the Superintendent of Public Instruction.

Procedures for determining whether the district meets the new requirements would be included in the state audit guidelines.

Targeted Instructional Improvement Grant (TIIG); Home-to-School Transportation

The May Revision maintains the January Budget criteria for Targeted Instructional Improvement Grant (TIIG) and Home-to-School Transportation.

The two programs have been repealed in the May Revision although the funds would be made available to the school districts, county offices of education and charter schools that previously received this funding. The funds would be treated as an add-on under the LCFF. The May Revision trailer bill clarifies that small school district transportation is included in the transportation add-on. The funds could be used for any educational service.

The May Revision proposes to provide home-to-school transportation joint powers authorities (JPAs) with continued direct funding for two additional years. Member school districts would be required to forward funding equal to the 2012-13 allocation to the JPAs unless both parties agree to an alternative arrangement.

School districts should review district and local priorities in assessing the use of these funds. No COLA would be added to these funds in the future.

CALPADS

The Governor's proposed LCFF provides supplemental funding for students that are eligible for free and reduced price meals (FRPM), are English Learners (EL), or are foster youth. Because of this, the FRPM, EL and foster youth counts would be all the more important.

LCFF and the Advance Apportionment

In the event the LCFF is implemented for 2013-14, the CDE reports the advance apportionment would be based on P-2 revenue limit and general purpose funding and would include categorical funding entitlements from 2012-13 that are not already paid within the principal apportionment. Further, the CDE reports that calculations would provide an increase for growth and COLA (currently estimated at $1.9 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 states it may base 2013-14 P-1 apportionment calculations on 2013-14 P-1 ADA and 2012-13 enrollment, FRPM, and EL counts from CALPADS using Fall 1 2012. The CDE also estimates that apportionments would be certified at P-2 using 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.

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.

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 (see Appendix B).

New CALPADS Functionality: County and Authorizing LEA Reports

The LCFF would 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.

Difference in Socioeconomically Disadvantaged Definitions

On May 10, 2013, the CDE provided information on the difference in socioeconomically disadvantaged definitions through *CALPADS Update Flash 74*.

The socioeconomically disadvantaged (SED) NCLB subgroup displayed on CALPADS reports cannot be compared to the total FRPM count displayed on Report 5.1a – *Free or Reduced Price Meal Eligibility – Count* for a couple of important reasons:

- The NCLB subgroup includes parent education level in the definition of SED. Therefore, students with parents whose highest educational level is "Not a High School Graduate" *are* included in the NCLB subgroup; and
- The NCLB subgroup includes students with a FRPM program record, and it *does not* include students who were directly certified, or who are migrant, homeless, or foster, unless those students also have a FRPM program record.

For 2012-13 accountability purposes, the definition of SED includes those students found to be automatically eligible for free meals through direct certification, because of a migrant program record, or because of a primary residence code indicating the student is homeless or is a foster youth. This expanded definition of SED will be reflected in the enrollment and graduate/dropout reports on DataQuest. As a result, the subgroup data on DataQuest will not match the NCLB subgroup data displayed in CALPADS reports. The CALPADS reports will be adjusted in the future to reflect this expanded definition of SED.

Basic Aid

Basic aid districts currently are defined as districts having property taxes in excess of their revenue limit entitlement. The LCFF language states the determination of a basic aid district is made exclusive of funds received through Education Protection Account (EPA) and further excludes revenues received through the LCFF hold harmless calculation. Under the LCFF, a basic aid district is defined as a district that does not receive state aid to fund the base entitlement for transition to the LCFF or any portion of the LCFF at full implementation.

Under LCFF, basic aid districts would receive minimum state funding of no less than the amount received in 2012-13. The hold harmless amount would be calculated based on the categorical allocation net of 8.92% fair share reduction. However, the fair share reduction is limited by the district's property taxes in excess of the 2012-13 revenue limit and by the total of all categoricals enumerated by the LCFF.

Miscellaneous Basic Aid Revenues

- Minimum guarantee of $120 per ADA (remains unchanged)
- EPA $200 per ADA ongoing funding is dependent on basic aid status
- District of Choice credit is at 70% of district of residence LCFF base grants (excluding supplemental and concentrations grants)
- Charter School Basic Aid Supplement is at 70% of district of residence LCFF base grants (excluding supplemental and concentrations grants)
- Court-ordered is at 70% of district of residence local control funding formula base grant only

Each basic aid district is uniquely funded. Some basic aid districts are only in basic aid status by virtue of the state's deficited revenue limit, while others are and would remain basic aid under the LCFF proposal. Also, basic aid districts receive varying levels of categorical funds, as reduced by the fair share calculation.

Through the hold harmless language of the LCFF, each basic aid district would be guaranteed to receive state aid equal to its 2012-13 categorical funding, after fair share reductions. Consistent with the current provisions of the EPA, basic aid districts would receive $200 per ADA in 2012-13 and each year thereafter through 2018-19.

Through the implementation of the LCFF, basic aid districts that lose their basic aid status would receive a proportionate offset to the EPA minimum funding as state aid revenues grow through LCFF implementation.

It is important for basic aid districts to carry higher than minimum reserves. Dependence on property taxes means dependence on assessed property values. Greater than minimum reserves provide a buffer should assessed values fall short of projections. Moreover, basic aid districts whose student population is growing do not receive additional funding.

With the LCFF implementation, many basic aid districts may convert to being LCFF funded. Districts are advised to be cautious and plan for this possibility. Cash flow will be seriously affected for districts transitioning out of basic aid status. All basic aid districts are advised to work closely with their county offices of education in projecting their current and future basic aid status.

Charter Schools

The Governor's May Revision did not alter his January Budget proposal for charter schools. Similar to the LCFF proposal for school districts, charters would receive supplemental and concentration grants that could be used for any educational purpose. However, charter schools would be limited to no more than the concentration grant increase provided to the school district where the charter school resides.

A few other details require charter school allocations to be linked to the local school district(s) in which the charter resides. The LCFF requires the use of the percentage of the charter's unduplicated pupils in excess of 50% to be limited to the percentage of unduplicated pupils in excess of 50% of the single school district in which the charter school is physically located. If the charter school is physically located in more than one school district, then that charter's percentage could not exceed that of the school district with the highest percentage in excess of 50%. Other areas in the LCFF proposal follow current law, such as in-lieu property tax transfers. The use of the greater of current or prior year ADA remains exclusive to school districts.

The May Revision also maintains several charter school proposals from last year. They include:

- Giving charters priority on surplus property for five additional years. This would extend the current one-year requirement for school districts with surplus property to first offer to sell to charter schools.
- Consolidating charter financing authority. This would shift the Charter School Facility Grant program and the Charter School Revolving Loan program from the CDE to the California School Finance Authority.
- Simplifying funding for online charters. This would modify the SB 740 funding determination process for non-classroom based charter schools by (1) limiting it to the first and third years of operation in most instances and (2) requiring charters found out of compliance with minimum standards and applicable laws to comply with annual funding determinations.
- Allowing online charters to access facilities funding. This would expand the Charter Schools Facility Grant program to include eligibility for non-classroom based charter schools.

Adult Education

The Governor's May Revision proposes to maintain the status quo for existing K-12 and community college Adult Education programs for two years. The existing apportionment structure and funding would remain in place through 2014-15, and LEAs could independently continue existing Adult Education programs or use the funds for other educational activities. However, by 2015-16, Adult Education providers would be expected to join a regional Adult Education consortium consisting of at least one community college district and one school district within the boundaries of the community college district. The community college district would serve as the consortium fiscal agent. The consortium could include other entities including but not limited to correctional facilities, workforce investment boards, other local public entities and community-based organizations.

The proposal includes $30 million in Proposition 98 funds in 2013-14 for two-year planning and implementation grants. The Governor also provides $500 million in 2015-16 to fund regional consortiums, which would be prioritized and allocated to critical areas of instruction. Only ESL, citizenship, high school diploma, GED and workplace education classes would be eligible for funding through the new program. At least two-thirds of the funding or $350 million of the $500 million would be apportioned to existing Adult Education providers in a consortium, provided they maintained their 2012-13 level of state spending for Adult Education in 2013-14 and 2014-15.

Of note is that if a district received Adult Education funds and chose to flex the funds in 2012-13, it could apply for the funding as a new provider. If a district operated a program in 2012-13 and chose to flex the funds in 2013-14 and 2014-15, its ability to apply for funds in 2015-16 would be eliminated.

No more than 5% of the funding could be used by a community college district for costs associated with serving as the fiscal agent, and no more than an additional 5% of the funds could be used by the consortium for administrative costs.

By 2016-17, consortiums would need to develop full articulation agreements between Adult Education coursework and Career Technical Education coursework or collegiate coursework. The intent is to coordinate curriculum to effect a seamless entry and exit for students from K-12 to community college and to prevent students from needing to repeat any coursework.

Foster Youth Services

The state Foster Youth Services program provides support services for foster children, who often experience multiple placements in foster care. It is one of approximately 40 categorical programs that would be rolled into the LCFF on full implementation. The May Revision reinstates some of the requirements of the original Education Code with regard to county superintendents retaining the responsibility to coordinate services for foster youth between child welfare agencies, schools, juvenile court and probation. This also includes the efficient transfer of health and education records between those agencies.

Students identified as Foster Youth are included in the unduplicated counts used in calculating supplemental and concentration grants. The Governor also now includes foster youth as a subgroup in the Academic Performance Index that is subject to growth targets as set by the State Board of Education.

Regional Occupational Centers & Programs (ROC/P) / Career Technical Education (CTE)

The May Revision continues to treat ROC/P as part of the LCFF base for districts and county offices that receive the Tier III funding directly from the state. High school grade span base grants would receive an augmentation intended to address the costs of providing CTE (see Section 42238.02.d.4). Essentially all code sections related to ROC/P required activities are deleted, but the option to continue operating ROC/Ps remains, and in many instances the revised code encourages such activity. Beginning in 2014-15, a CTE component would be required in accountability plans.

For direct-funded ROC/P JPAs, the Governor proposes to continue the same level of ROC/P funding received in 2012-13 for fiscal years 2013-14 and 2014-15. A direct-funded JPA is defined as one funded through a county office that "received on behalf of or provided funds to,"... "a regional occupational center or program joint powers agency established in accordance with Article 1 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code." Districts participating in ROC/P JPAs would need to consult with their county office to determine if their JPA is impacted by this provision.

The proposal specifies that direct-funded JPAs "not redirect that funding for another purpose unless otherwise authorized in law or pursuant to an agreement between the regional occupational center or program joint powers agency and the contracting school districts."

It is unclear at this time how this new proposal would impact the hold harmless level for districts and county offices that participate in the direct-funded JPAs, both during the two-year funding period and in 2015-16 and beyond. Until further clarification is received, districts and county offices contracting with direct funded JPAs should assume that the funds would not be part of their respective individual hold harmless/LCFF base calculation for 2013-14 and 2014-15, and should make contingency plans for the possibility that the funding will not continue after the two-year transition.

Federal CTE funds including Perkins funding are not part of LCFF and continue to be subject to all existing compliance and reporting requirements.

Revenue Limit Transition / Advance Apportionment

The Governor's proposed LCFF eliminates revenue limits and corresponding add-ons and adjustments. This includes 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 would be folded into the LCFF. These amounts would no longer be adjusted for changes in districts' UI expenditures or in PERS contribution rates.

Districts would 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.

Revenue Limits	**2011-12**	**2012-13**	**2013-14** [3/]
Statutory COLA	2.24%	3.24%	N/A
Funded COLA	0%	0%	N/A
Deficit Factor	-20.40%	-22.27%	N/A
PERS Rate	10.92%	11.42%	N/A
Unemployment Insurance Rate	1.61%	1.10%	N/A

3/ Under the new Local Control Funding Formula, deficit factor will be restored and new COLAs will be provided through the establishment of individual per ADA target funding levels for school districts and charter schools. PERS and UI adjustments are no longer applicable under the new formula.

County Office of Education Revenue Transfers

Traditionally, revenue limit for students in COE-operated special day classes and community schools has been transferred to COEs based on the base revenue limit of the student's district of residence. However, under the LCFF, these funds would instead flow to the student's resident school agency requiring a transfer to the COE. The funding would be accounted for as part of a district's hold harmless amount in calculating its funding under the LCFF.

For county-operated programs, funding would continue to go to the district where the student resides unless that student has been mandatorily expelled, probation-referred, on probation or parole or incarcerated. In these four cases, the COE would receive funding directly from the state. If a COE enrolls a student not funded pursuant to these four cases, any attendance generated by that student would be credited to the school district of residence. Also, the enrollment of these students would be transferred to the school district of residence so the percentage of unduplicated students could be calculated under Section 42238.02 to determine supplemental grants. The expectation under LCFF is that the school district would pay the COE the entire entitlement for each unit of average daily attendance generated by these students.

Local educational agencies could continue to participate in county-operated programs at their discretion. Funding would have to go through the LEA and then to the COE. This would require COEs to work with LEAs to transfer appropriate funding to the agency serving the student.

School districts should be prepared to enter into agreements with COEs to facilitate the transfer of revenue received under the LCFF for programs such as special day classes and community schools for their students unless or until the CDE is able to implement a pass-through transfer of this revenue.

Accountability Plans

Effective 2014-15, the LCFF relies on the use of accountability plans in shifting control of LEA budgets from the state to the local level. The trailer bill specifies the required components of the accountability plans as they apply to districts, county offices of education and charter schools.

Key components of the accountability plan are:

- It would be developed in consultation with teachers, principals, administrators, other school personnel, parents and pupils
- It would be adopted once every five years (minimum) with an update prepared annually
- It would include an analysis of an LEA's effectiveness in the following areas:
    - pupil achievement
    - graduation rates
    - dropout rates
    - attendance rates
    - percentage of suspensions
    - percentage of expulsions
    - parental involvement

The annual update would include an accounting of how the supplemental and concentration grants primarily benefitted the students who generated the funding.

There is also a maintenance of effort component related to the base, supplemental and concentration grant funding for the identified students until full implementation. The MOE states that LEAs must spend an amount equal to the pro-rata share of the identified pupils based on 2012-13 expenditures, adjusted by the amount by which the LCFF funding gap is reduced. If expenditures exceed the 2012-13 base, but prior to full implementation, the higher expenditure level prevails. At full implementation, districts would be required to identify expenditures as they apply to the students who generated the funding per the LCFF formula.

Beginning in 2014-15, LEAs would be expected to adhere to the locally defined accountability plans and make academic progress. If an LEA does not meet API for two years or if the county superintendent determines that a district's plan does not include specific actions needed to meet the academic obligations of the school district, steps of remediation similar to AB 1200 would be invoked. These steps could include anything from a written letter from the county superintendent to the governing board citing specific actions to which he/she objects, to assignment of an academic expert to assist the district, to FCMAT evaluation and, if necessary, stay and rescind orders.

A local control and accountability plan would be adopted by June 30 prior to the fiscal year for which it is created, starting with 2014-15. The plan must be aligned and adopted with the district's budget beginning with fiscal year 2014-15. A template would be provided by the State Board of Education by January 2014 that would encompass all required components of the plan.

Cash Management

Ever since the 2008-09 mid-year budget cuts and the increasing apportionment deferrals that ensued, cash management has become critical for all LEAs.

The state is committed to reducing debt as evidenced by the actual repayment of $2.065 billion of cross fiscal year deferrals in 2012-13 and a May Revision proposal to buy down additional deferrals of $1.6 billion in 2012-13 and $862.26 million in 2013-14. At the peak in 2011-12 deferrals totaled $9.4 billion, but they are projected to drop to $4.9 billion in 2013-14 if the Governor's May Revision is adopted. The proposed deferral buy-downs should improve LEA cash positions during the 2013-14 fiscal year.

Another significant change to LEA cash flows occurred in 2012-13 with the passage of Proposition 30, which established the Education Protection Act (EPA) whereby temporary sales tax and income tax revenues are collected and distributed to schools. The 2012-13 EPA apportionment will be made on June 27, 2013. Beginning in 2013-14, EPA will be apportioned quarterly. This calculation may be subject to change under LCFF.

LEAs may estimate 2013-14 EPA by multiplying total revenue limit funding (Line E-1 of CDE's 2012-13 P-2 School District Revenue Limit exhibit) by 16.4%, unless the 16.4% calculation is greater than state aid, in which case EPA can be estimated at the greater of state aid or $200 per

ADA. To estimate quarterly 2013-14 EPA apportionments, the result of the previous calculation is divided by four.

The Governor's 2013-14 May Revision estimates EPA to be $6.509 billion for 2012-13 and $5.572 billion for 2013-14. The 2012-13 P-2 principal apportionment will reflect the June 2013 EPA apportionment. The 2013-14 advance principal apportionment will include an EPA entitlement offset of $5.572 billion. In September 2013, LEAs will receive 25 % of their EPA entitlement.

EPA entitlement reductions are calculated based on an LEA's total revenue limit funding; therefore, the impact on a given LEA's cash flow is unique.

Intra-Year Principal Apportionment Deferrals

Intra-year apportionment deferrals do not exist for 2013-14. Legislation is required to implement intra-year state cash management deferrals. However, intra-year deferrals were implemented in 2011-12 and 2012-13 pursuant to Government Code Sections 16326(a)(1) and 16326(a)(2).

Cross Fiscal Year Principal Apportionment Deferrals

When Proposition 30 passed, 2012-13 K-12 principal apportionment cross fiscal year deferrals were reduced by $2.065 billion. The 2013-14 May Revision proposes a $1.6 billion reduction in K-12 deferrals for 2012-13. However, the $1.6 billion buy-down would not increase the amount of cash received by June 30, 2013, as it simply accelerates the accounting recognition of buying down a significant portion of P-1 deferrals that occurred in 2012-13.

K-12 principal apportionment cross fiscal year deferrals decreased from $9.4 billion in 2011-12 to $7.4 billion in 2012-13 and are proposed to be reduced to $4.9 billion in 2013-14 (see table on next page). Since the remaining cross fiscal year deferrals are ongoing, LEAs should continue to incorporate them in their cash flow projections for future periods. Please see Appendices C-1 and C-2 for a graphic illustration of statewide principal apportionment deferrals.

Time Frame	2012-13 Cross Fiscal Year Deferrals	2013-14 Cross Fiscal Year Deferrals
February to July	$531.720 million	Rescinded
March to August	$1.029493 billion	Rescinded
April to August	$763.794 million	Rescinded
April to July	$594.748 million	$461.054 million
May to July	$1.976701 billion	$1.976701 billion
June to July	$1.601655 billion and the remaining balance of the June apportionment. The combined total has been $2.5 billion in prior years.	$1.601655 billion and the remaining balance of the June apportionment. The combined total has been $2.5 billion in prior years.
Deferred across fiscal years	$7.396 billion ($5.793 billion with the $1.603 billion buy-down from May Revision	$4.938 billion
May to July (formerly categorical deferrals)		$200 million
June to July (formerly categorical deferrals)		$699.473 million

We recommend the following next steps for school districts as it relates to cash management:

- Revise 2012-13 and 2013-14 cash flow projections to reflect the appropriate cross fiscal year deferral reductions.
- Update cash flow projections to reflect EPA in 2012-13 and 2013-14.
- Evaluate cash flow projections as soon as possible and develop a plan of action to address cash shortfalls. Options include:
    - Temporary interfund borrowing (Education Code Section 42603)
    - Cross fiscal year tax revenue anticipation notes (TRANs)
    - A temporary transfer from the county treasurer (Education Code Section 42620)

Categoricals

The Governor's May Revision for 2013-14 would repeal most categorical program funding, with the exception of a few programs funded outside the Tier III flexible categoricals programs, such as Special Education, Child Nutrition, QEIA, After School Education and Safety (ASES) and federal programs.

Programs categorized as Tier III under SBX3 that have been flexed since 2008-09 would be eliminated and combined into the base in calculating the LCFF. Tier III public hearings, as required under SBX3 would no longer be required beginning in 2013-14.

Programs that have been funded outside of the Tier III programs would continue to be treated separately under the LCFF. These programs include federally funded programs, QEIA, Special Education, ASES, Child Nutrition, Preschool, Mandate Block Grant, district of choice credit, charter school basic aid supplement, court-ordered credit and a variety of other programs. For a list of categoricals that would be folded into LCFF targets, please refer to Appendix A.

Under the LCFF, Targeted Instruction Improvement Grant (TIIG) and Home to School/Special Education Transportation are treated as stand-alone add-ons.

LEAs may keep categorical budgets unchanged, or if using the LCFF, categoricals should not be budgeted in addition to the LCFF unless funded outside the LCFF.

Deferred Maintenance: While funding for Deferred Maintenance is part of the base in the LCFF program, the responsibility for maintaining district facilities would become part of a district's Local Control Accountability Plan (LCAP). Further, Williams Act facility requirements would continue.

Forest Reserve: On March 19, 2013, the United States Department of Agriculture sent letters to state governors regarding sequestration and Forest Reserve funding allocated in January 2013. In the letter, he requested the return or recovery of 5.1% of the amount paid. Although efforts are being made to mitigate this request, districts should develop contingency plans in the event these efforts are unsuccessful.

Lottery: Lottery funding would be calculated in the same manner as prior years. The estimates for 2012-13 and 2013-14 are $124 per annual ADA for unrestricted and $30 per annual ADA for Proposition 20 (restricted).

Mandated Costs: The May Revision provides $266.6 million for the Mandated Block Grant (MBG). The funding budgeted in 2013-14 for the MBG is $47 per ADA for K-12 districts, $24 per ADA for charter schools and $48 per ADA for county offices of education. A proposal is pending for trailer bill language that would include Pupil Expulsion II, Pupil Suspensions II, Educational Services Plan for Expelled Pupils, and activities associated with the Oral Health Assessment program in the MBG. The deadline for election of the MBG changes from September 30 to August 30.

Districts that do not opt to receive funding through the MBG would need to continue to collect data and submit for reimbursement. However, the Governor's May Revision does not include funding for mandated cost claims.

Quality Education Investment Act (QEIA): The May Revision would adjust certain calculations, reflecting the appropriation made from Proposition 98, which would return apportionments to the original schedule.

Routine Restricted Maintenance: The required 3% expenditure for Routine Restricted Maintenance has been repealed although the requirements under the Williams Act remain. Districts should review their routine maintenance needs and ensure that Williams Act requirements are met and that students are housed in facilities that are safe and in good repair.

Interest Yield Projections

The office of the Orange County Treasurer-Tax Collector states that the current gross yield for 2012-13 is 0.38% and is forecasted to be 0.37% for 2013-14 based on continued low short-term interest rates.

Property Taxes

We recommend that school districts budget for 2012-13 property taxes based on 2012-13 P-2 property tax estimates prepared by the Orange County Auditor-Controller's office. We recommend that school districts budget 2013-14 Education Revenue Augmentation Fund (ERAF) revenues at 2011-12 levels. In addition, school districts should not budget for any one-time revenues associated with redevelopment successor agency cash assets, also known as low and moderate income housing funds (LMIHF) or unencumbered assets.

Child Care

The Governor's May Revision does not include funding for Cost of Living Adjustments (COLA) otherwise included in the proposed new Proposition 98 funding model. The proposal continues the requirement that fees be assessed and collected for families with children in part-day preschool programs, families receiving wraparound child care services, or both, and that those fees cannot exceed 10% of the family's total income.

Most changes to Child Care and Preschool funding in the May Revision surround caseload numbers:

- Stage 2 funding is decreased an additional $511,000 from January in non-Proposition 98 general fund to reflect a decline in the number of eligible beneficiaries. Total base cost for stage 2 is $397.8 million.
- Stage 3 funding is decreased $15.1 million in non-Proposition 98 general fund from the amount proposed in January because the Stage 3 population fell short of the January

estimates. The Stage 3 base still grows by $9.1 million in 2013-14 for total base of $157.5 million.
- Capped non-CalWORKs programs will receive an increase of $1.7 million general fund for capped child care programs and an increase of $1.2 million Proposition 98 general fund for state preschool due to an increase in the number of 0-4 year old children.
- Child care and development funds receive a net increase of $8.5 million in federal funds in 2013-14 (originally a decrease was expected).

The Governor's realignment proposal for implementation of the Affordable Care Act now identifies that over time, counties would assume greater responsibility for CalWORKs, CalWORKs-related child care programs and CalFresh (formerly Food Stamps) administration costs. This current proposal only speaks to CalWORKs child care funding whereas the January Proposal mentioned child care in general.

Common Core Implementation Grant

The May Revision provides a one-time $1 billion increase to assist school districts, county offices and charter schools in implementing the new Common Core academic standards. Funds would be distributed to all schools on a per-ADA basis outside the LCFF calculation.

Funding for Common Core implementation is estimated to be $170 per ADA for all school districts, county offices, and charter schools. While funded by 2012-13 state revenues, LEAs would receive these funds in 2013-14. Funds can be used for professional development, instructional materials, and investments in technology to support Common Core implementation.

Common Core implementation funding spending requires a two-year spending plan. School districts, county offices and charter schools are required to hold a public hearing on the plan.

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 LEAs' 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. Though not required, a sample resolution is included as Appendix D. 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.

Federal Sequestration

Congress approved legislation (HR 933) that averted a government shutdown for fiscal year 2013, but automatic sequestration cuts to all federal education programs such as Title I and IDEA went into effect and will stay in place for the 2013-14 school year. Sequestration is required by the Budget Control Act until 2023 unless Congress and the President agree to legislation eliminating or reducing the sequestration cut requirements to education and other federal programs.

Further sequestration reductions are still a possibility as the Administration, the Senate and the House all have offered conflicting budget assumptions for the 2014 fiscal year. The President's budget for fiscal year 2014 funds key education programs such as Title I, IDEA and Perkins Career and Technical Education at the same levels as 2013 and 2012, without additional sequestration cuts. The Senate Budget Resolution assumes that sequestration cuts will not occur after fiscal year 2013. The House of Representatives assumes lower funding levels for education programs and sequestration cuts implemented in fiscal year 2014 all the way to 2023.

Congressional appropriations committees are beginning work on appropriations bills for 2014. The Administration's education budget recommendations will now become part of the congressional process subject to the differing House and Senate budget resolutions and to the decision making of the House and Senate appropriations committees. As decisions are made about appropriations for 2014, action by Congress and the Administration will be necessary to change the annual sequestration requirements of the Budget Control Act. Sequestration will still be in effect in fiscal year 2014 without specific congressional action to amend the Budget Control Act.

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.

Instructional Days

Education Code 46201.2 authorized school districts, county offices of education and charter schools to reduce up to five days of instruction or the equivalent number of instructional minutes without incurring penalties or reduction in funding for the 2009-10 through 2014-15 school years.

The May Revision continues to provide school districts, county office of education and charter schools the school year reduction flexibility through 2014-15.

Education Code 46202 has been amended to provide the withholding of LCFF apportionment from school districts offering less than the minimum educational minutes by grade span.

Education Code 46207 has been added to provide the withholding of LCFF apportionment from basic aid school districts offering less than the minimum educational minutes by grade span.

Districts would need to plan to restore a 180-day school year and the annual instructional minutes requirement in the 2015-16 fiscal year.

Medi-Cal Administrative Activities (MAA)

As a condition of participating in Medi-Cal Administrative Activities (MAA), LEAs are subject to review by the federal oversight agency, Centers for Medicare and Medicaid Services (CMS). In November 2011, CMS notified Department of Health Care Services (DHCS) of the plan to review school MAA claiming units in CA. Three LEAs were chosen and reviewed in spring 2012. The process included a review of the claims and interviews of claiming participants. In April 2013 CMS released its draft report that found some of the reviewed claims to be out of compliance with federal regulations, guidelines and standards. CMS determined that the LEA survey results were not reasonable or allocable to Medicaid. DHCS has until late May to respond to the draft report, and the final report is subject to change based on responses provided by DHCS.

Based on these reviews and the review of additional source documentation provided by DHCS, CMS notified DHCS that pending school MAA claims were to be deferred until additional documentation and clarification could be obtained. In addition, California's MAA plan did not comply with the requirements detailed in the Office of Management and Budget (OMB) Circular A-87. DHCS requested approval for an interim plan for 2012-13 to ensure that LEAs could continue to claim and receive reimbursements. A one-year interim claiming process was approved by CMS, and DHCS began releasing the instructions for deferral documentation and certification process.

To date, 54 claiming units of the 920 (participating statewide) have been released from the deferral process. No LEA has been released since January 2013. Once an LEA is released from deferral it will begin to receive MAA invoice payments.

DHCS was required to submit a revised time study methodology and statewide implementation plan to CMS by September 2012. Currently DHCS is responding to an additional 11 comments from CMS with regard to the proposed revisions to the 2013-14 plan and time survey methodology.

DHCS is working to develop a reasonableness test that will meet the CMS requirements for reviewing the final deferred claims. At this time there is no projected date that all LEAs will be released from the deferral process, and LEAs should budget MAA reimbursements on a cash basis until further notification from their local education consortium.

Negotiations

School districts considering a multi-year contract need to exercise caution and maintain flexibility through contingency language that protects them from cost increases beyond their control (e.g., pension reform, health care reform and/or the implementation of the LCFF). Health care reform may incur unanticipated employer costs beyond the scope of bargaining. For this reason, districts are encouraged to exercise caution when bargaining ongoing commitments for health care benefits.

Over the next few weeks of state budget negotiations, districts need to recognize that the LCFF may change from the current version included in the May Revision. If implemented, the LCFF would provide different funding increases, and in some cases no funding increases at all. This would place additional pressures on districts to maintain competitive salaries, recognizing that some districts may be in a better position to negotiate increases than others.

Also, school districts should consider that EPA funding through Proposition 30 yields temporary increases to state revenues through 2018-19. Moreover, the sales tax portion of Proposition 30 expires at the end of 2016 and the income tax increase expires in 2018.

Proposition 39

The May Revision amends the Governor's Proposition 39 implementation proposal., allocating no less than $15,000 for exceptionally small LEAs (less than 200 ADA). All other LEAs would receive the greater of $50,000 or the LEA's per ADA distribution. Consistent with the Governor's January proposal, funds would be used for energy efficiency school construction and modernization projects in K-14 schools.

Redevelopment Agencies (RDA)

When Gov. Brown and lawmakers initiated efforts to dissolve RDAs and restore local property taxes to local governments from which local tax revenues were historically diverted, a stated goal was to provide a means of financial support for public schools. The California Supreme Court affirmed the intent of the legislative effort when it upheld the constitutionality of AB 1x 26 - the bill that dissolved RDAs - stating that the legislation was "intended to stabilize school funding."

The intent to provide financial support and stability to public schools through RDA dissolution was seriously eroded with the passage of AB 1484 in the 2012 legislative session. AB 1484 prescribes the time frame during which the RDA pass-through payments will cease to be made to local governments by successor agencies that have assumed the responsibilities and obligations of former RDAs, including previously determined financial obligations. Specifically, AB 1484 added subdivision (b) of Section 34187 of the Health and Safety Code, which states:

"(b) When all the debt of a redevelopment agency has been retired or paid off, the successor agency shall dispose of all remaining assets and terminate its existence within one year of the final debt payment. **When the successor agency is terminated, all pass-through payment obligations shall cease** (emphasis added) and no property tax shall be allocated to the Redevelopment Property Tax Trust Fund for that agency."

Although this provision was a significant policy shift, it did not receive the benefit of a policy discussion through the traditional legislative policymaking process to vet its impact on local governments, particularly school districts, COEs, and community colleges. Despite requests from the education community to strike this subdivision from the budget trailer bill because of its destabilizing impact on LEAs' fiscal planning and management, AB 1484 was passed and enacted. Prior to passage by the full Senate Budget Committee, however, the Senate recognized the valid concerns raised by the school community and committed to revisiting the issue of prematurely terminating pass-through payments.

Despite current legislative efforts to mitigate the impact of AB 1484 and preserve the pass-through payments, districts should stay current with the debt status of any former RDA from which they receive payments and, if warranted, begin planning for the early termination of those payments. Any district utilizing pass-through payments for debt service should pay particular attention to the estimated life of the applicable RDA(s) and develop contingency plans to service debt as warranted.

Reserves

The revised 2009-10 enacted budget lowered the minimum reserve requirement levels for economic uncertainties to one-third the percentage level adopted by the State Board of Education as of May 1, 2009. SB 70 extended this provision for both 2010-11 and 2011-12. However, school districts are required to make progress in the 2012-13 fiscal year to return to compliance with the specified standards and criteria adopted by the State Board of Education. By fiscal year 2013-14, school districts must meet compliance and restore the reserves to the percentage adopted by the State Board of Education prior to May 1, 2009.

There are multiple benefits to carrying higher than minimum reserves. These reasons include volatility of state revenues, cash management, deferral management, declining enrollment, dependency on parcel taxes, basic aid dependency on property taxes and basic aid districts that are close to losing their basic aid status. This is in no way an exhaustive list. Of all the reasons for carrying higher than minimum reserves, however, state revenue volatility is the most compelling. Higher than minimum reserves provide protection from state revenue swings and create a more stable educational environment for students.

County offices of education and basic aid school districts are advised to maintain reserves much greater than the state-required minimum because they do not have the prior year ADA protection provided to school districts under Education Code 42238.5, whereby revenue limit funding is based on ADA for either the current or prior fiscal year, whichever is greater.

Retirement

Pension reform has been taking shape over the past year. LEAs will need to follow changes to retirement costs that will impact multiyear projections. A summary of PERS and STRS pension reform changes and how they may impact LEA budgets follows:

CalPERS

On April 17, the CalPERS board adopted an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period. The new amortization and smoothing policy will be used for the first time in the June 30, 2013 actuarial valuations. These valuations will be performed in fall 2014 and will set employer contribution rates for the fiscal year 2015-16.

Under current statute, LEAs are responsible for a maximum of 13.02%. Rates for 2012-13 are 11.417%. The PERS employer contribution rate for 2013-14 is expected to be approved at the June board meeting.

Expected rate increases due to the new amortization and smoothing policy can be estimated based on the asset volatility ratio (AVR) of the pool. PERS estimates that for 2015-16, the contribution rate will be 13.30%. With an AVR of 4.6, schools can anticipate approximately 1.1% increase to the contribution rates annually.

With implementation of the LCFF, PERS revenue limit reduction would be eliminated, increasing an LEA's exposure to the increasing contribution rates. Additional employer contributions should be anticipated in creating multiyear 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 utilize a blended approach of increasing member, employer and state contributions. Some of the proposals in the draft include changes to employer (LEA) contributions as early as 2014-15.

The May Revision does not address additional state contributions to the unfunded CalSTRS liability. This could mean even higher LEA contributions or adjustments to other state budgetary items that could potentially offset revenues that may have otherwise benefited the LEA.

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.

Special Education

Special education would be funded outside the LCFF, with $3.6 million in funding for ADA growth and a 1.565% COLA.

- Special education local plan areas (SELPAs) with growth are expected to receive an estimated $473.12 per ADA
- Estimated COLA is $7.28 per ADA

The Governor also proposed $60.7 million in Proposition 98 funds to backfill the federal special education sequestration cut.

The Governor proposes changes to the AB 602 funding formula by allocating federal local assistance funds outside the formula. This is intended to streamline the calculation and correct inequities in the funding that SELPAs receive for growth ADA versus the amount they are penalized when they decline. The proposal also includes an increase in the statewide target rate to $482 per ADA. Budgets may be developed using this rate.

The proposal rolls $91.4 million of regionalized services and program specialist service funds and $2.5 million in personnel development funds into the AB 602 base.

School districts continue to be responsible for mental health services to disabled students. A total of $426 million is provided to support mental health services. Of that amount, $69 million comes from federal funds and the remainder comes from Proposition 98 funding. The mental health funding formula for the distribution of the $426 million will be allocated on a per-ADA basis to the SELPAs.

The Governor proposes to restructure the existing requirements for the Behavioral Intervention Plans (BIP) mandate to eliminate most of the reimbursable costs. The K-12 Mandate Block Grant has increased by $100 million to fund both BIP and graduation requirements mandates.

On January 25, 2013, the Commission on State Mandates voted to adopt the Reasonable Reimbursement Methodology (RRM), which reimburses LEAs a flat amount of $10.64 per ADA for each fiscal year from 1993-94 to 2011-12 for BIP mandates. However, starting in 2010-11, costs are offset with AB 602 special education funding. This is being challenged by the California School Boards Association. If the challenge is successful, LEAs would not have to offset their claim with AB 602 funding.

The $10.64 per ADA would be allocated $1.187 to SELPAs and $9.457 to school districts and county offices of education.

Commencing in 2012-13, the RRM can no longer be used because actual reimbursement claims using actual costs will need to be filed.

Situational Guidance to Districts and Multiyear Projections (MYP)

Implementation of the LCFF would be situational for each district. Some districts may receive no additional funding, while others may receive a significant down payment toward their LCFF targets. ***During the week of May 20th to May 24th, our office had conversations with each Orange County school district's chief business official to discuss 2013-14 budget assumptions given that each district has a unique financial situation and risk tolerance.***

Historically, projected COLAs and deficits have been the standard for building multiple year projections. The application and significance of COLAs under the LCFF would take on new meaning.

- Under revenue limits, year-to-year funding changes have been the result of ADA growth or decline and funded COLAs.
- During implementation of the LCFF, year-to-year funding changes would be the result of ADA growth or decline, COLAs, unduplicated counts, **and** the percentage of implementation (gap) funding.
- Upon full implementation of the LCFF, year-to-year funding changes would be the result of ADA growth or decline, COLAs and unduplicated counts.

Deficit Factor Restoration
Consistent with the Governor's January proposal, the May Revision funds restoration of the deficit factor through implementation of the LCFF. Full implementation is estimated by 2020-21.

Multiyear Projections
The Department of Finance (DOF) has provided its estimates for LCFF gap funding for 2013-14, 2014-15 and 2015-16.

Year	2013-14	2014-15	2015-16
Gap Funding %	11.5%	17.1%	29.7%

The May Revision to the Governor's Budget provides each district and charter school increased funding equal to approximately 11.5% of the difference between their current funding level and their LCFF target in 2013-14. According to the DOF, additional funding is projected to increase funding equal to 17.1% of the remaining difference in 2014-15 and 29.7% in 2015-16. The increase in 2015-16 is due in part to the completion of the pay-down of deferrals in the prior year.

Included with the May Revision to the budget advisory is the BASC LCFF MYP Calculator. This calculator has been verified by the DOF. In addition to calculating individual district, charter and necessary small school funding under the LCFF, the calculator also provides year-to-year funding percentage increases.

At this point in time districts are between two funding methods. Actual increases each district and charter school would receive would vary based on the difference between their current funding level and their LCFF target.

Summary

Since the 2008-09 school year, Orange County school districts have endured unprecedented funding reductions. During this time of uncertainty, school districts should continue to be cautious and focus on a multi-year strategy in recommending decisions and obtaining agreements. We encourage school districts to maintain best fiscal practices and be proactive in preserving fiscal solvency by developing contingency plans that allows the most flexibility possible.

Appendix A
Categoricals

Under the LCFF, local education agencies are to receive minimum state funding of no less than the total received in the 2012-13 fiscal year, including the following categoricals:

▪ **Administrator Training**
▪ **Adult Ed**
▪ **Adults in Correctional Facilities**
▪ **Advanced Placement and IB**
▪ **Agricultural Vocational Education**
▪ **Arts and Music Block Grant**
▪ **Bilingual Teacher Training Assistance Program**
▪ **BTSA**
▪ **CAHSEE – Instructional Support & Services**
▪ **California School of Student Councils**
▪ **CalSAFE**
▪ ***CDS Mandatorily Expelled (Added at May Revision)***
▪ **Certificated Staff Mentoring**
▪ **Charter School Categorical Block Grant**
▪ **Child Oral Health Assessments**
▪ **Civic Education**
▪ **Class Size Reduction**
▪ **Class Size Reduction, 9th Grade**
▪ **Community Based English Tutoring**
▪ **Community Day Schools**
▪ **Deferred Maintenance**
▪ **Educational Technology – CTAP**
▪ **EIA**
▪ **Foster Youth Programs**
▪ **GATE**
▪ **Home to School Transportation**
▪ **Instructional Materials Block Grant**
▪ **Math and Reading Professional Development**
▪ **National Board Certification Incentives**
▪ **Partnership Academies**
▪ **Physical Education Teacher Incentive Grants**
▪ **Professional Development Block Grant**
▪ **Pupil Retention Block Grant**
▪ **ROC/P**
▪ **School and Library Improvement Block Grant**
▪ **School Safety Block Grant (8-12)**
▪ **School Safety Consolidated Competitive Grants**
▪ **Specialized Secondary Programs**
▪ **Supplemental Instruction (Summer School)**
▪ **Supplemental School Counseling Program**
▪ **Targeted Instruction Improvement Grant**
▪ **Teacher Credentialing Block Grant**
▪ **Teacher Dismissal Apportionment**

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: • **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: • **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
		Highly Qualified Teacher (HQT)	0 counts and potential placement on sanction list
Spring 1: • **Immigrant counts** • **English Language Acquisition Status**	**State**	DataQuest (EL and FEP Counts, and SNOR)	0 counts
		Economic Impact Aid (EIA) Program	0 counts & impact on funding
	Federal	NCLB Title III Limited English Proficiency Program	0 counts & 0 funding
		NCLB Title III Immigrant Program (SNOR)	0 counts & 0 funding

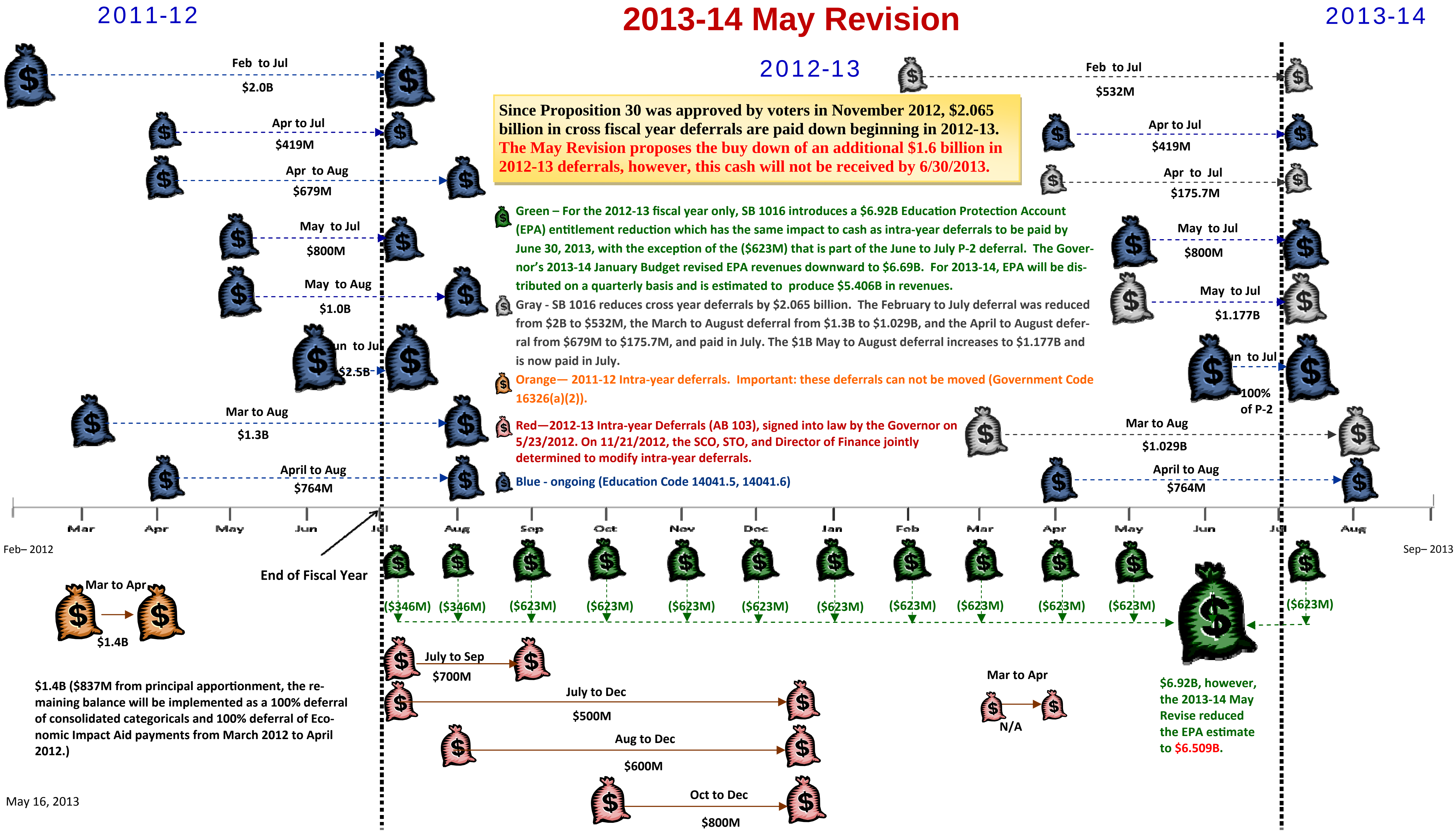
How Certified CALPADS Data are Used and Consequences

EOY-1: • **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: • **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: • **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: • **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. 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
		Academic Performance Index (API) Base and Growth	
	Federal	Adequate Yearly Progress (AYP) targets	

Appendix C-1

Delayed Principal Apportionment Funding

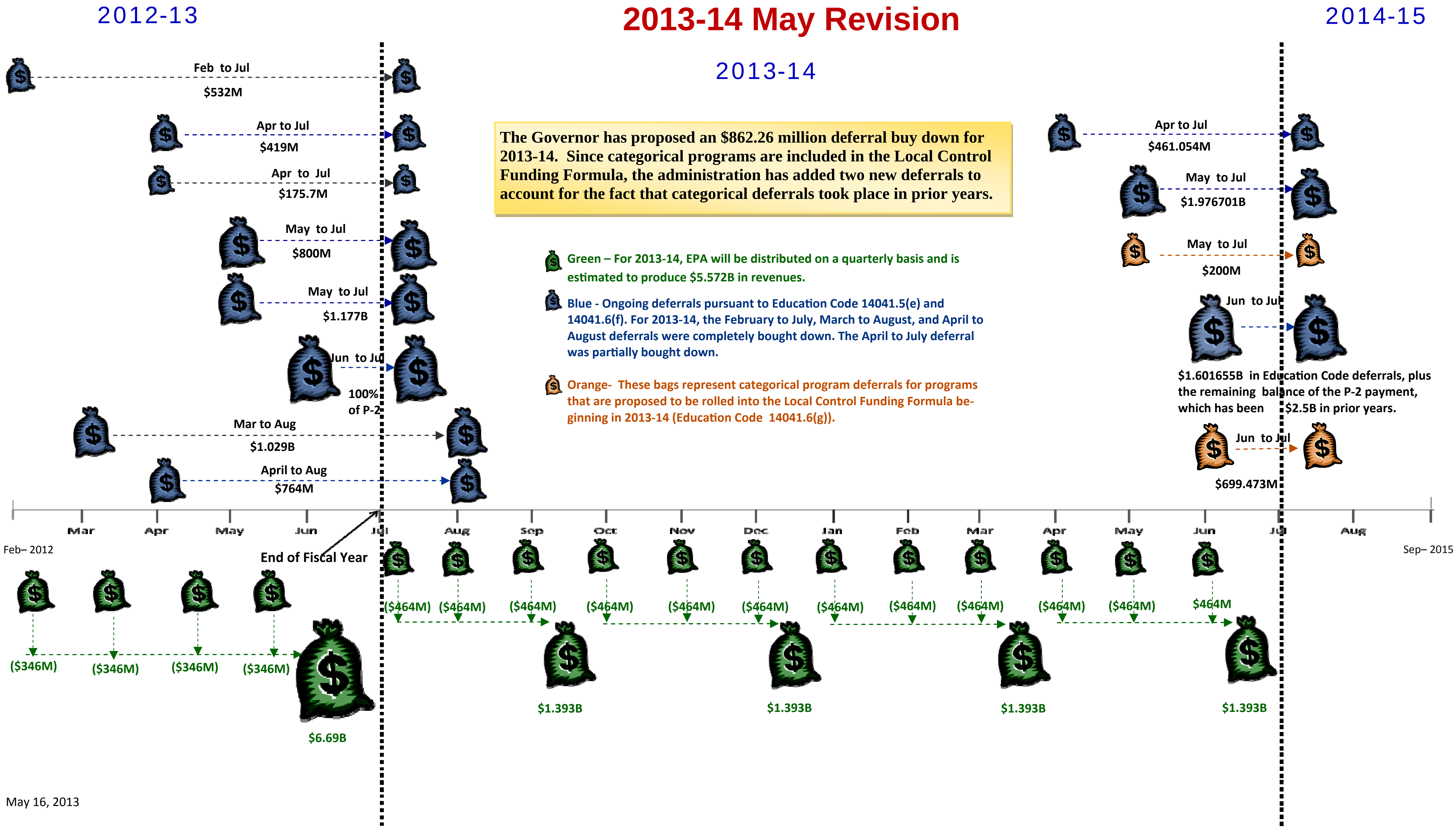
2013-14 May Revision



Appendix C-2

Delayed Principal Apportionment Funding

2013-14 May Revision



May 16, 2013

SAMPLE RESOLUTION REGARDING THE EDUCATION PROTECTION ACCOUNT

WHEREAS, the voters approved Proposition 30 on November 6, 2012;

WHEREAS, Proposition 30 added Article XIII, Section 36 to the California Constitution effective November 7, 2012;

WHEREAS, the provisions of Article XIII, Section 36(e) create in the state General Fund an Education Protection Account to receive and disburse the revenues derived from the incremental increases in taxes imposed by Article XIII, Section 36(f);

WHEREAS, before June 30th of each year, the Director of Finance shall estimate the total amount of additional revenues, less refunds that will be derived from the incremental increases in tax rates made pursuant to Article XIII, Section 36(f) that will be available for transfer into the Education Protection Account during the next fiscal year;

WHEREAS, if the sum determined by the State Controller is positive, the State Controller shall transfer the amount calculated into the Education Protection Account within ten days preceding the end of the fiscal year;

WHEREAS, all monies in the Education Protection Account are hereby continuously appropriated for the support of school districts, county offices of education, charter schools and community college districts;

WHEREAS, monies deposited in the Education Protection Account shall not be used to pay any costs incurred by the Legislature, the Governor or any agency of state government;

WHEREAS, a community college district, county office of education, school district, or charter school shall have the sole authority to determine how the monies received from the Education Protection Account are spent in the school or schools within its jurisdiction;

WHEREAS, the governing board of the district shall make the spending determinations with respect to monies received from the Education Protection Account in open session of a public meeting of the governing board;

WHEREAS, the monies received from the Education Protection Account shall not be used for salaries or benefits for administrators or any other administrative cost;

WHEREAS, each community college district, county office of education, school district and charter school shall annually publish on its Internet website an accounting of how much money was received from the Education Protection Account and how that money was spent;

WHEREAS, the annual independent financial and compliance audit required of community college districts, county offices of education, school districts and charter schools shall ascertain and verify whether the funds provided from the Education Protection Account have been properly disbursed and expended as required by Article XIII, Section 36 of the California Constitution;

WHEREAS, expenses incurred by community college districts, county offices of education, school districts and charter schools to comply with the additional audit requirements of Article XIII, Section 36 may be paid with funding from the Education Protection Act and shall not be considered administrative costs for purposes of Article XIII, Section 36.

NOW, THEREFORE, IT IS HEREBY RESOLVED:

1. The monies received from the Education Protection Account shall be spent as required by Article XIII, Section 36 and the spending determinations on how the money will be spent shall be made in open session of a public meeting of the governing board of ____________________________;

2. In compliance with Article XIII, Section 36(e), with the California Constitution, the governing board of the ____________________________ has determined to spend the monies received from the Education Protection Act as attached.

DATED: _________, 2013.

____
Board Member

____
Board Member

____
Board Member

____
Board Member

____
Board Member