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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 Based on the 2013-14 Enacted State Budget

This budget advisory provides information and guidance for Orange County K-12 school districts and is intended for use in implementing the Local Control Funding Formula (LCFF) and preparing 45-day budget revisions as needed.

The advisory incorporates the 2013-14 Enacted State Budget and provides detailed information about the LCFF, accountability plans, cash management, Common Core Implementation Grant, cash management, federal sequestration, and many other topics related to education finance.

As always, we encourage school districts to be proactive and maintain the most flexibility as 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 June 27, 2013, the Governor signed the 2013-14 Budget (AB 110), and on July 1 he signed education trailer bill AB 97 (and clean-up bill SB 91) which establishes the Local Control Funding Formula (LCFF). The Budget provides increased funding for schools, primarily in the form of $2.1 billion to implement LCFF. Additionally, the Budget provides $1.25 billion in one-time money for Common Core implementation, and $250 million in one-time funds for Career Technical Education (CTE) grants.

While some significant changes were made to the LCFF since the May Revision, the Legislature approved all the major elements of the Governor's landmark school finance reform proposal. The LCFF is intended to correct historical inequities and increase flexibility, but it also brings new challenges, as local educational agencies (LEAs) must quickly adapt to a new funding model. In addition, many of the details of the new accountability structure are yet to be determined. Key components, including regulations on the use of Supplemental and Concentration Grants and the format for Local Control Accountability Plans, will be determined by the State Board of Education, which will take action on these items by the first quarter of 2014.

Fiscal year 2013-14 will be a period of transition. This budget advisory is intended to provide information and guidance on the enacted budget and the LCFF that will allow districts to successfully navigate the new realities of public school finance in California.

Proposition 98

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	0.8
May	98.2	56.5	16.1	40.4	55.2	0.9
Adopted	98.2	56.5	16.1	40.4	55.2	0.9

(all numbers in billions)

For 2012-13, and as compared to the May Revision budget proposal, state revenues are not projected to change. The lack of a change in revenue keeps Proposition 98 steady at $56.5 billion. (Actual cash receipts for 2012-13 exceeded the budget by just over $2 billion.)

Fiscal Year 2013-14	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
Adopted	97.1	55.3	16.3	39.0	57.2	1.7

(all numbers in billions)

For budget year 2013-14, and as compared to the May Revision budget proposal, state revenues are not projected to change significantly. As a result Proposition 98 remains virtually unchanged at $55.3 billion – *down* $1.2 billion from 2012-13.

Analysis: The Legislative Analyst's Office as well as the Legislature projected significantly more 2013-14 revenue than the final numbers included in the adopted state budget. Revenues for 2012-13 as of the end of June were $2 billion higher than the numbers contained in the adopted state budget. These factors indicate there could eventually be a moderate but positive change in the 2013-14 statewide budget.

Local Control Funding Formula

Assembly Bill 97 (LCFF) and Senate Bill 91 (LCFF clean-up) included changes from the May Revision to the base grants as well as the supplemental and concentration thresholds. The formula continues to provide a base grant and grade-span adjustments that will be adjusted annually by the statutory COLA beginning in 2013-14 as follows:

Grade Level	Base	Base + 2013-14 COLA (1.565%)	Base Grade Span Adjustments
Grades K-3	$6,845	$6,952	$723 (10.4%)
Grades 4-6	$6,947	$7,056	
Grades 7-8	$7,154	$7,266	
Grades 9-12	$8,289	$8,419	$219 (2.6%)

Supplemental and concentration grants are added to the base grants based on an LEA's unduplicated pupil count percentage of pupils who are eligible for free and reduced price meals, or are classified as English Language Learners or Foster Youth. See the Supplemental and Concentration Grants section for details.

Economic Recovery Payment (ERT)

Additionally, districts and charter schools with undeficited 2012-13 base revenue limit, general purpose and categorical funding per ADA that is equal to or below $14,500 and that exceeds their computed LCFF entitlements at full implementation will be restored to their undeficited funding through a supplemental economic recovery target (ERT) payment. ERT payments are calculated as follows:

Districts and charter schools that are eligible for ERT funding will receive the difference between their LCFF target and their LEA's 2012-13 undeficited funding, multiplied by 2013-14 COLA of 1.565%, multiplied by a COLA of 1.94% for each year between 2014-15 through 2020-21. This amount is then divided into one-eighth payments beginning with 1/8 in 2013-14, increasing by 1/8 annually until the full payment becomes a permanent add-on, starting in 2020-21. This calculation is built into the Business & Administration Steering Committee (BASC) LCFF Calculator.

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 this 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 *revised* 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.

The LCFF calls for year-to-year growth in Proposition 98 revenues to fund the gap each year until the LCFF is fully funded. The enacted budget provides $2.1 billion toward first year implementation. This is sufficient to fund approximately 11.78% of the gap in 2013-14.

Specific areas of the LCFF including Charter Schools, K-3 24:1 class size, and Basic Aid are covered in greater detail following this section.

BASC LCFF Calculator

The BASC LCFF Calculator is designed to calculate the LCFF for 2013-14, 2014-15, and 2015-16. The calculator accommodates all types of districts, including basic aid districts 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). Additional features include K-3 Class Size penalty and ERT payment calculations have also been added. Finally, the calculator incorporates the hold harmless aspects of the LCFF and EPA funding.

The BASC LCFF Calculator has been updated to reflect AB97/SB91. The Department of Finance (DOF) has reviewed, verified, and provided input during the development of the BASC LCFF Calculator.

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 use of these funds will be subject to regulations to be adopted by the State Board of Education on or before January 31, 2014. See the Accountability Plans section of this document for more details.

The Superintendent of Public Instruction will 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 will 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 is subject to audit under the state audit guidelines.

The unduplicated pupil count percentage is computed as follows:

1. 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.

2. 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.

3. 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.

The supplemental grant is equal to 20% of the grade span base grant as increased by the grade-span adjustments of 10.4% in K-3 and 2.6% in 9-12, multiplied by the unduplicated pupil count percentage calculated above.

If the LEA's unduplicated pupil count percentage exceeds 55% then the district or charter school will receive a concentration grant. The concentration grant is equal to 50% of the grade span base grant for each applicable grade level, after being increased by the additional adjustments for the K-3 and 9-12 grade span adjustments. For example, an LEA with a 60% unduplicated percentage would receive a concentration grant for 5% of its ADA.

For a charter school physically located in one school district, the charter school's percentage of unduplicated pupils in excess of 55% used to calculate the concentration grant cannot exceed the percentage of unduplicated pupils in excess of 55% 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 55% cannot exceed that of the school district with the highest percentage of unduplicated pupil count in excess of 55%.

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, as adjusted for changes in ADA and property taxes.

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 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, categorical programs are subject to an 8.92% fair share reduction, calculated on the 2012-13 revenue limit entitlement.

- For charter schools, all charter general purpose block grant received in 2012-13 and the amount of in-lieu property tax received in 2012-13 divided by 2012-13 ADA, multiplied by current ADA.

- For charter schools, charter categorical block grant and charter supplemental categorical block grant received in 2012-13, divided by 2012-13 ADA, multiplied by current year ADA.

K-3 Class Size Adjustment

The base grant for the K-3 grade span increases by an add-on of 10.4%. The intent of this adjustment is to cover the costs associated with smaller class sizes in grades K-3, including transitional kindergarten (TK), 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 adjustment, districts will be required to either:

1. Have a class size ratio of 24:1 or less at each school site in 2013-14 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.

LEAs that fail to meet the above requirements will lose 100% of the additional funding. During implementation, the loss will be proportional to the amount of gap funding the LEA would otherwise receive by reducing the LCFF target and gap funding a district would otherwise receive.

As a means of managing this risk, LEAs may choose to utilize the BASC LCFF Calculator to help determine if adequate progress is made toward the ratio of 24:1 for each school site. Through modeling different school site staffing scenarios LEAs can compare any calculated funding loss with the cost of hiring additional staff. 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 2013-14 year, unless there is a collectively bargained alternative ratio. Adequate progress is determined by multiplying the gap between the district's current average class size by site by the percentage of LCFF gap funding provided in the State budget.

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. Determine each school site's 2012-13 average class enrollment for grades K-3.

3. Subtract the target average class enrollment of 24 from the averages determined in Step 2 above to determine the difference by school site.

4. Multiply the difference calculated in Step 3 by the percentage determined in Step 1.

5. Subtract the results of Step 4 above from the results of Step 2 to get the required maximum average class size by school site for the school year in question.

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

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 will be included in the state audit guidelines.

The BASC LCFF Calculator includes a class size penalty calculator that can be used to determine class size progress requirements and potential penalties for lack of compliance.

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

The July State Budget continues to maintain the January Budget criteria for Targeted Instructional Improvement Grant (TIIG) and Home-to-School Transportation.

The two programs have been repealed although the funds are made available to the school districts, county offices of education and charter schools that previously received this funding. The funds will be treated as a permanent add-on under the LCFF.

The use of the funds is intended to be flexible for any educational purpose. However, the budget contains transportation maintenance of effort language that was not part of the May Revision proposal. Specifically, it states that, "of the funds a school district receives for home-to-school transportation programs pursuant to Article 2 (commencing with Section 39820) of Chapter 1 of Part 23.5, and Article 10 (commencing with Section 41850) of Chapter 5, the school district shall expend no less than the amount of funds the school district expended for home-to-school transportation in the 2012–13 fiscal year." Unlike the JPA requirements (see below) and similar ROC/P and Adult Education MOE provisions that sunset in two years, this requirement is ongoing.

The enacted budget also maintains the separate MOE requirements related to transportation JPAs proposed in the May Revision, requiring of districts and COEs that "For the 2013-14 and 2014-15 fiscal years only, a school district that, in the 2012–13 fiscal year, from any of the funding sources identified in paragraph (1) or (2), received funds on behalf of, or provided funds to, a home-to-school transportation 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 for purposes of providing pupil transportation shall not redirect that funding for another purpose unless otherwise authorized in law or pursuant to an agreement between the home-to-school transportation joint powers agency and the contracting school district."

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

CALPADS

The 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 will be all the more important.

LCFF and the Advance Apportionment

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 in the principal apportionment. Further, the calculations will provide an increase for growth and COLA as allocated in the enacted budget ($2.1 billion) in proportion to revenue limits. At this point, P-1 apportionments are the first point at which the California Department of Education (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 CALPADS data.

The CDE and the Department of Finance (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.

On May 30, 2013, the CDE released CALPADS Update Flash #75, which provides guidance for reporting socioeconomically disadvantaged (SED) students in Provision 2 and 3 schools for accountability purposes. Guidance has changed beginning in the 2013-14 school year, as LEAs should no longer submit NSLP records for all students in Provision 2 and 3 schools. The CDE will use the following student level data from CALPADS for accountability purposes:

1. Students who are eligible for FRPL based on application for the NSLP or who are determined to meet the same income eligibility criteria for NSLP through their local schools.
2. Students who are automatically eligible for free meals based on their foster, migrant, or homeless status.
3. Students who are directly certified as being eligible.
4. Students with parents whose highest educational level is "not a high school graduate."

Flash #75 notes that LEAs may determine whether a student meets the income requirements for NSLP eligibility using an alternative process to the NSLP application process, and may submit NSLP program records to CALPADS for these students.

Provision 2 operates on a four-year cycle, with the first year as the base year when eligibility is established. The NSLP administrators' reference manual states that applications for NSLP may not be distributed in year 2, 3, or 4 of the program. "If applications are distributed or direct certification is used, this information must be used to conduct a new base year's claiming percentages or return to standard counting and claiming procedures." Because NSLP eligibility under Provision 2 and 3 will not be considered sufficient for accountability purposes, LEAs will need to collect eligibility using an alternative form.

The Department of Finance and CDE are discussing methods to address this issue. BASC is part of a subcommittee to develop a sample student eligibility form for consideration.

It is imperative for districts to develop or refine their system for accurately gathering, reporting, and certifying data in CALPADS. 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 requires 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 (SED) Definitions

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

- 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 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 will receive minimum state funding of no less than the amount received in 2012-13. The hold harmless amount will 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 LCFF base grants (excluding supplemental and concentration grants).

Each basic aid district is uniquely funded. Some are only in basic aid status by virtue of the state’s deficited revenue limit, while others are and will remain basic aid under the LCFF. 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 will be guaranteed to receive state aid equal to its 2012-13 categorical funding, after fair share reductions calculated at 8.92%. Consistent with the current provisions of the EPA, basic aid districts will also 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 will receive a proportionate offset to the EPA minimum funding as state aid revenues grow through LCFF implementation.

Basic aid districts should 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, those districts that became basic aid by virtue of the deficit factor may convert to being state funded through the LCFF. 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

Charter school funding under LCFF will be largely identical to district funding, except that in certain circumstances charter funding will be constrained by factors related to the district in which the charter is physically located.

Charters will receive supplemental and concentration grants, but a charter school's concentration grant percentage will be limited to the percentage associated with the school district where the charter school resides. If the charter school is physically located in more than one school district, then that charter's percentage cannot exceed that of the school district with the highest percentage in excess of 55%. Other aspects of charter school funding remain unchanged in the LCFF, including in-lieu property tax transfers, and the use of current year ADA even in the case of declining enrollment.

The adopted budget also requires charters to abide by many of the same elements as required in district local control and accountability plans (LCAP). Charters will be required to annually update goals related to those elements:

- A charter school petition must include a description of the school's annual goals for all students and for each subgroup of students to be achieved in applicable state priority areas.

- A charter school must update its goals as identified in the charter petition beginning in 2015, no later than July 1 of each year, using a template adopted by the State Board of Education and including the following:

    - A review of the progress toward the goals included in the charter, and an assessment of the effectiveness of the specific actions of the charter school in meeting its schools

    - A list and description of the expenditures for the subsequent year implementing the specific actions included in the charter

- If a charter school fails to improve outcomes, as identified in the charter petition, for three or more pupil subgroups (or all of the charter school's pupil subgroups if the charter school has less than three pupil subgroups), all of the following apply:

- The chartering authority shall provide technical assistance to the charter school, using a State Board of Education (SBE) adopted evaluation rubric
- The Superintendent of Public Instruction (SPI) may assign, at the request of the chartering authority and approved by the SBE, the California Collaborative for Educational Excellence (CCEE) to provide technical assistance to the charter school
- The chartering authority shall consider charter revocation for a charter school that receives CCEE technical assistance, and either fails to implement the CCEE recommendations or has persistently or acutely underperformed based on the SBE adopted evaluation rubric

Other charter school specific provisions of the budget include:

- Giving charters priority claim on surplus district property for five additional years. This extends the current one-year requirement for school districts with surplus property to first offer to sell or lease the facility to charter schools.

- Consolidating charter financing authority by shifting 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 by modifying the SB 740 funding determination process for non-classroom based charter schools by the following:

  - (1) Limiting the SB740 funding determination to the first and third years of operation in most instances

  - (2) Charters that are found out of compliance will be required to comply with annual funding determinations.

- Allowing online charters to access facilities funding by expanding the Charter Schools Facility Grant program to include eligibility for non-classroom based charter schools.

Adult Education

Adult Education funds are folded into the LCFF and are intended to be flexible for any educational purpose. However, the enacted budget changed provisions for adult education from the status quo to a maintenance of effort model for two years. Therefore, for the 2013-14 and 2014-15 fiscal years only, the district or county office of education shall expend no less for the Adult Education program than the amount spent in the 2012-13 fiscal year.

Maintenance of effort is not a condition of apportionment. It is unclear exactly how a definitive required maintenance of effort level would be determined, because Tier III flexibility and LCFF provide no dedicated Adult Education funding source. Nonetheless, because these provisions are intended to benchmark expenditures based on 2012-13 levels, districts should ensure that 2012-13 expenditure coding accurately reflects the district's activities and priorities. In addition, there has been some discussion in the Legislature about possible clean-up legislation related to these provisions.

The budget requires the Chancellor of the Community Colleges and the state Department of Education to jointly provide two-year planning and implementation grants to regional consortia and community college districts to develop regional plans to better serve the education of adults.

The regional consortia shall consist of at least one community college district and at least one school district within the boundaries of the community college district, and either entity may serve as the fiscal agent. Consortia may include other entities providing adult education courses, including but not limited to correctional facilities, other local public entities and community based organizations.

It is the legislation's intent for consortia to work toward developing common policies and full articulation agreements between adult education coursework and career technical education coursework or college coursework as well as fee and funding levels. In addition, the legislation's intent is to provide additional funding in the 2015-16 fiscal year to regional consortia to expand and improve the provision of adult education.

Foster Youth Services

The state Foster Youth Services program provides support services for foster children, who often experience multiple placements in foster care. The State Budget has removed Foster Youth Services from the list of approximately 40 categorical programs that would be rolled into the LCFF on full implementation. County superintendents retain 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 enacted budget continues to treat ROC/P as part of the LCFF base for districts and county offices that received the Tier III funding directly from the State, and the funds are intended to be flexible for any educational purpose. However, the budget contains maintenance of effort language that was not part of the May Revision proposal. Specifically, it states that, "for the 2013-14 and 2014-15 fiscal years only, of the funds a school district (or COE) receives for purposes of regional occupational centers or programs […] the school district shall expend no less than the amount of funds the school district expended for purposes of regional occupational centers or programs, or adult education, respectively, in the 2012-13 fiscal year." The enacted budget also maintains the separate MOE requirements related to ROC/P JPAs proposed in the May Revision, requiring that districts and COEs that "received funds on behalf of, or provided funds to, a regional occupational center or program joint powers agency for purposes of providing instruction to secondary pupils shall 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 district."

Maintenance of effort is not a condition of apportionment. In addition, it is unclear exactly how a definitive required maintenance of effort level would be determined given that under Tier III flexibility and LCFF there is no dedicated ROC/P funding source. Nonetheless, because these provisions are intended to benchmark expenditures based on 2012-13 spending levels, districts should make certain that 2012-13 expenditure coding accurately reflects the district's activities and priorities.

While AB 97 required the 2.6% augmentation to the high school grade span base grant to be used to promote "college and career readiness" (see Section 42238.02.d.4. B-D), cleanup bill SB 91 removed these restrictions. Nonetheless, the intent of this funding remains to allow districts to provide for CTE in a manner consistent with the LCFF's focus on flexibility and local control. In addition, beginning in 2014-15, a CTE component will still be a required element of accountability plans.

Another significant change in the enacted budget as compared with the May Revision is the inclusion of $250 million in one-time funding for Career Technical Education Pathway Grants to be competitively awarded to for work-based learning programs.

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 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 is folded into the LCFF. These amounts will no longer be adjusted for changes in districts' UI expenditures or in PERS contribution rates.

Districts are expected to cover any increased costs associated with unemployment insurance expenses, PERS rates or other district-specific adjustments as currently applied to district revenue limit calculations.

Revenue Limit Factors	2011-12	2012-13	2013-14 3/
Statutory COLA	2.24%	3.24%	N/A
Funded COLA	0%	0%	N/A
K-12 Deficit Factor COE Deficit Factor	20.602% 20.889%	22.272% 22.549%	N/A
PERS Current Year Rate PERS Restoration Rate	10.923% 0.3004556706	11.417% 0.3830029101	N/A
Unemployment Insurance Rate	1.61%	1.10%	N/A

3/ Under the LCFF, 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 RLR and UI adjustments are no longer applicable under the new formula.

Advance Apportionment

For 2013-14, the advance apportionment will be based on P-2 revenue limit and general purpose funding and will includes categorical funding entitlements from 2012-13 rolled into the LCFF. Further, the BASC has learned that calculations will provide an increase for growth and COLA (currently estimated at $2.1 billion) in proportion to revenue limits. P-1 apportionments will be the earliest point at which CDE can certify an apportionment based on LCFF and using prior year 2012 CALPADS data.

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 instead flow to the student's resident school agency, requiring a transfer to the COE. The funding will be accounted for as part of a district's hold harmless amount in calculating its funding under the LCFF.

For county-operated programs, funding continues 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 receives funding directly from the state. If a COE enrolls a student not funded pursuant to these four cases, any attendance generated by that student is credited to the school district of residence. Also, the enrollment of these students is transferred to the school district of residence so the percentage of unduplicated students can be calculated under Education Code Section 42238.02 to determine supplemental and concentration grants. The expectation is that the school district will pay the COE the entire entitlement for each unit of average daily attendance generated by these students.

LEAs may continue to participate in county-operated programs at their discretion. The Department of Finance had envisioned that funding would have to go through the LEA and then transfer to the COE as a local process. This would require COEs to work with LEAs to transfer appropriate funding to the agency serving the student.

Language remains in place allowing CDE to transfer this type of funding into the COE's revenue limit when the ADA is reported. The Department of Finance is looking into clean-up language that could allow this administrative convenience to continue. In the event that this action is not taken in the near future, however, 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.

For the 2013-14 advance apportionment, which is based on the prior year, the apportionment will maintain the status quo (transferring the funds to COEs and reducing district apportionments).

Accountability Plans

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

A Local Control and Accountability Plan (LCAP) must be adopted by June 30 prior to the fiscal year for which it is created, starting with 2014-15. Plans must be aligned and adopted with the district's budget beginning with fiscal year 2014-15.

The LCAP must include the following:

- For the district and each of its school sites, a description of the goals to be achieved for each State priority (listed below) for all pupils and each pupil subgroup identified as part of the LCFF.
- A plan that will be effective for a period of three years, with an update prepared before July 1 of each year.
- Specific actions the school district will take during each year of the LCAP to achieve district goals, including budget amounts allocated to carry out specific actions necessary for that year to correct any deficiencies and comply with State priorities.
- District goals must be aligned with and address all of the following State priorities:
    - proper teaching assignments/proper credentials for instructional staff.
    - sufficiency of standards-aligned instructional materials.
    - school facilities maintained and in good repair.
    - implementation of academic content and performance standards (including how programs and services will enable EL students to access common core).
    - parental involvement and input at each school site and district.
    - pupil achievement as measured by:
        - statewide assessments and the Academic Performance Index.
        - percentage of pupils successfully completing courses that satisfy post 12th grade coursework.
        - percentage of EL pupils who make progress as measured by the CELDT and EL reclassification rate.
        - percentage of pupils who have passed an Advanced Placement exam with a score of 3 or higher.
        - percentage of pupils who demonstrate college preparedness pursuant to the Early Assessment Program.
    - pupil engagement (based on school attendance rates, chronic absenteeism, middle school dropout rates, high school dropout rates, high school graduation rates).
    - school climate (as measured by pupil suspension/expulsion rates and/or surveys of parents, pupils and teachers).
    - the extent to which pupils have access to, and are enrolled in, a broad course of study.
    - Pupil outcomes.
- Evidence that the Governing board has consulted with teachers, principals, administrators, other school personnel, parents and pupils in developing an LCAP.

The annual update will be developed using a template provided by the State Board of Education and include all of the following:

- A review of any changes in the applicability of the annual goals as set forth by the prior year's LCAP.

  - A review of the progress toward the goals (assessment of the effectiveness of the existing LCAP and a description of changes to be made as a result of the review and assessment).
  - A list and description of the expenditures for the fiscal year implementing the specific actions included in the LCAP as a result of the review and assessment.
  - A list and description of expenditures for the fiscal year that will serve identified pupils (EL, FRPM) using appropriate goals and functions per the California School Accounting Manual (CSAM).

Before the governing board of a school district adopts an LCAP or annual update, the following must occur:

- Superintendent presents the LCAP to the Parent Advisory Committee and the English Learner Parent Advisory Committee. The superintendent must respond, in writing, to comments received from both the Parent Advisory Committee and the English Learner Parent Advisory Committee.

- Superintendent must notify members of the public of the opportunity to submit written comments regarding the LCAP or annual update, using the most efficient method of notification possible. Printed or mailed notices are not required.

- Superintendent reviews school plans for district schools to ensure they are consistent with strategies included in the LCAP.

- At a minimum, one public hearing must be held by the district governing board to solicit recommendations and comments from the public prior to adoption of the LCAP.

- Adoption of the LCAP must be in a public meeting. This meeting shall be held after, but not on the same day as the public hearing.

- Revisions to the LCAP are permitted during the period it is in effect but only after it has been adopted, and the revisions must be adopted by the governing board in a public meeting.

Establishment of Committees

- The governing board of a school district must establish a Parent Advisory Committee to provide advice to the governing board and the superintendent.

- The Parent Advisory Committee must include parents or legal guardians of pupils that meet one or more of the definitions in Section 42238.01.

- If a Parent Advisory Committee already exists and meets the specified requirements, the district is not required to establish a new committee.

- The governing board must establish an English Learner Parent Advisory Committee if the enrollment of the school district includes at least 15% English learners and has at least 50 pupils who are English Learners.

- If an English Learner Parent Advisory Committee already exists and meets the specified requirements, the district is not required to establish a new committee.

Regulations will be adopted by the State Board of Education to govern expenditures for identified pupils with regard to supplemental and concentration grants. Per 42238.07 (a), an LEA is to "use funds apportioned on the basis of the number of unduplicated pupils for schoolwide purposes … in a manner that is no more restrictive than the restrictions provided for in Title I of the Federal No Child Left Behind Act of 2001." These regulations are to be adopted on or before January 31, 2014.

Similar to a district budget, county superintendents may not approve a LCAP or annual update if deficiencies exist. Districts can turn to a COE for technical assistance in creating the district LCAP or annual update. Intervention will be offered by any of the following: written guidance from the COE, assignment of an academic expert/team, or assignment of the California Collaborative for Educational Excellence (CCEE).

If over a four year period interventions are not successful **and** the CCEE makes a determination that a school district's "inadequate performance is so persistent and acute that state intervention is required," the Superintendent of Public Instruction may, with the approval of the State Board, do one or more of the following:

- Make changes to an LCAP.

- Develop and impose a budget revision that would allow for improved outcomes for all pupil subgroups.

- Stay or rescind an action (if that action is not required by a local collective bargaining agreement) that would prevent the district from improving outcomes for all pupil subgroups.

- Appoint an academic trustee.

Further details for the LCAP will follow upon adoption of regulations by the State Board of Education (SBE) by January 31, 2014. The SBE will then, by March 31, 2014, adopt templates for LEAs to use in the development of their accountability plans for 2014-15. Thereafter, any revisions to the template shall be made by the SBE prior to January 31 of each year.

Cash Management

Ever since the 2008-09 midyear 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 repayment of cross fiscal year deferrals during 2012-13 and 2013-14. At the peak in 2011-12, deferrals totaled $9.4 billion, but are projected to decrease to $5.6 billion in 2013-14. The 2013-14 deferral buy-downs should improve LEA general fund cash positions, all else being equal.

A 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. As projected by the Department of Finance, a $6.509 billion EPA apportionment was made on June 27, 2013 for the 2012-13 fiscal year. Beginning in 2013-14, EPA will be apportioned quarterly.

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 17.9%, unless the 17.9% 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, divide the result of the previous calculation by four. CDE anticipates posting the advance apportionment summary at www.cde.ca.gov/fg/aa/pa/pa1314.asp shortly.

The Governor's 2013-14 May Revision estimated 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.

Although the LCFF is effective beginning in 2013-14, EPA entitlements will still be based on the **revenue limit** formula.

Intrayear Principal Apportionment Deferrals

Except for EPA, intrayear apportionment deferrals do not exist in 2013-14.

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. Additionally, the 2013-14 State Budget Act includes a $1.590449 billion reduction in K-12 deferrals for 2012-13. However, the $1.590449 billion buy-down did not increase the amount of cash received by June 30, 2013, as it simply accelerated 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 will be reduced to $5.6 billion in 2013-14 (see table below). 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 Appendix C for a graphic illustration of statewide principal apportionment deferrals in 2013-14.

Time Frame	**2012-13**	**2013-14**
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	$917.542 million
May to July	$1.976701 billion	$2.152430 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	$7.4 billion ($5.8 billion with the $1.590449 billion buy-down from the 2013-14 State Budget Act)	$5.6 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:

- Revise 2013-14 and 2014-15 cash flow projections to reflect the appropriate cross fiscal year deferral reductions.
    - 38% of the April P-1 apportionment will be deferred to July.
    - 97% of the May P-1 apportionment will be deferred to July.
    - 100% of the June P-2 apportionment will be deferred to July.
- Update cash flow projections to reflect EPA in 2013-14 and 2014-15.
- 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)
    - A temporary transfer from the county superintendent of schools (Education Code Section 42621)

Categoricals

The Enacted State Budget eliminates most state categorical program funding, except for a few programs funded outside the LCFF. See Appendix A for a list of the programs folded into the LCFF.

The main budget bill, AB 110, maintains funding and program requirements for the following categorical programs:

- Partnership Academies
- Special Education
- After School Education & Safety Program
- State Preschool
- Quality Education Investment Act
- Assessments
- American Indian Education Centers
- Early Childhood Education Program
- Agricultural Vocational Education
- Specialized Secondary Programs
- Foster Youth Services Programs
- Adults in Correctional Facilities

The budget eliminates funding and program requirements for all other state categorical programs and redirects funds to the supplemental and concentration grant portions of the LCFF (page 105, Sec. 62 - Ed Code 42605).

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

Deferred Maintenance: Education Code Section 17582 is amended. While funding for deferred maintenance is part of the base in the LCFF, the responsibility for maintaining district facilities becomes part of a district's Local Control Accountability Plan (LCAP). Williams Act facility requirements continue.

Economic Impact Aid (EIA) Funding: EIA is now one of the categorical programs included in the LCFF formula. Currently the requirement to post expenditure data to the LEA's website under Education Code 54029 is still in effect. Districts should continue to post expenditures until cleanup language is completed.

Forest Reserve: On June 18, 2013, the Senate Energy Committee unanimously voted the Helium Act (S.783) out of committee which includes a one year authorization of Forest Reserve funding (with a 5% ramp down). The Helium Act will now go to the Senate for vote. While steps are being taken to reauthorize Forest Reserve, districts should continue to exclude Forest Reserve funds from their budgets at this time. Forest Reserve funds should be budgeted on a cash basis.

Lottery: Lottery funding is calculated in the same manner as prior years. CDE estimates that the lottery will provide $157 per ADA ($126 per ADA in unrestricted lottery revenues and $31 per ADA in Proposition 20 revenues) for 2013-14.

Mandated Costs: The July budget increases the Mandated Block Grant (MBG) allocation by $50 million, and the funds will be distributed to districts with high schools for graduation requirements. The budget suspends a variety of other mandates outside the MBG. Districts opting to accept the MBG will receive $28 per ADA for grades K-8, and $56 per ADA for grades 9-12. Charter schools will receive $14 per ADA for grades K-8, and $42 per ADA for grades 9-12. COEs will receive the same rates of reimbursement as districts, plus $1 per unit of countywide ADA. LEAs that do not opt to receive funding through the MBG will need to continue to collect data and submit for reimbursement. However, the July budget does not include funding for mandated cost claims.

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.

Regional Programs: Because the LCFF permanently eliminates a wide range of regional programs as separate identified funding streams, districts receiving regionalized services or funding through another LEA should be aware that the regional provider may not be able to sustain these services indefinitely without district contributions. Examples of programs that are often operated regionally include ROC/P, Beginning Teacher Support and Assessment (BTSA), and California Technology Assistance Project (CTAP) among others. All former Tier III regional programs may be diminished over time by rising costs and competing priorities under the LCFF's complete flexibility.

Interest Yield Projections

The office of the Orange County Treasurer-Tax Collector has forecasted a gross yield for fiscal year 2013-14 of 0.38% based on continued low short-term interest rates.

Property Taxes

The Orange County Assessor's 2013-14 Local Assessment Roll of Values indicates that roll values have increased countywide by 3.36% or $14.3 billion. Statewide, the Proposition 13 Consumer Price Index (CPI) increase is 2.0% for all properties that have a market value greater than the Proposition 13 taxable value on January 1, 2013. The initial tax levy for Orange County school districts will not be available until September 2013 and property tax estimates will not be available until November 2013. Until that time, we recommend that school districts budget property taxes based on the most recent information available.

For community redevelopment funds that are considered local property taxes, we recommend that school districts continue to budget for pass-through and residual apportionments. Please do not budget for any of the one-time revenues received in 2012-13 related to low and moderate income housing funds (LMIHF) or other funds and accounts (OFA). The LMIHF and OFA were one-time funds related to former redevelopment agencies asset liquidation.

For Education Revenue Augmentation Fund (ERAF), please budget at 2011-12 levels and assume large negative ERAF apportionments in December 2013 and in April 2014.

Child Care

The 2013-14 budget does not include funding for cost of living adjustments (COLA) for child development programs. Fees still must be assessed and collected for families with children in part-day preschool programs, families receiving wraparound child-care services, or both; fees cannot exceed 10% of the family's total income.

The budget includes:

- Total base cost for stage 2 of $357.8 million.
- Total base cost for stage 3 of $197.5 million.
- $10 million to serve an additional 3,300 full-day children in general child care programs, alternative payment programs, and migrant child care.
- $25 million of additional Proposition 98 funding to expand slots in the State Preschool program and to begin to restore the reductions sustained by the program over the last several years.
- Additional $1.2 million Proposition 98 funding for growth.

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

Common Core Implementation Grant

The final budget compromise provides $1.25 billion for Common Core implementation. $1 billion will be provided from 2012-13 funds, while an additional $250 million will be provided in 2013-14 for one-time common core costs. Funds will be distributed to all schools based on prior year enrollment, separate from the LCFF calculation.

Funding for Common Core implementation is estimated to be approximately $200 per *prior year enrollment* for all school districts, county offices and charter schools. While the majority of the funds for this come from 2012-13 state revenues, LEAs will receive these funds in 2013-14, with apportionments anticipated in August 2013 (50%) and October 2013 (50%). Funds can be used for professional development, instructional materials, and investments in technology to support Common Core implementation.

Common Core implementation funding requires the adoption of a two-year spending plan. Per AB 86, LEAs are required to, "Develop and adopt a plan delineating how funds … shall be spent. The plan shall be explained in a public meeting of the governing board … before its adoption in a subsequent public meeting." In addition, LEAs will be required to submit detailed expenditure reports on the use of the funds to CDE on or before July 1, 2015.

Federal Sequestration

Federal funding for education for federal fiscal year 2014 is uncertain. As of this date, the House and Senate Appropriations Committees' respective budget proposals for Labor, Health and Human Services, and Education are dramatically different, with the House drastically reducing the total funding available to fund all programs at the Departments of Education, Health and Human Services and Labor, including major education programs such as IDEA and Title I. The House cuts the Labor, Health and Human Services and Education, and Education Subcommittee allocation by 18.7 % while the Senate Subcommittee provides $42 billion more to fund programs at these agencies. The Senate also does not assume sequestration in fiscal year 2014.

The drastic differences between the House and Senate will have to be resolved later this year. The decisions made will determine whether or not federal education funding for programs such as IDEA and Title I will be reduced in fiscal year 2014 and subjected to additional sequestration cuts as well. 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 purposes, it is recommended that local educational agencies assume a 5.2% reduction in all federal education programs (child nutrition is exempt) for the 2013-14 school year budget. For subsequent fiscal years, it would be prudent to plan for additional reductions in federal funding until Congress resolves the federal deficit issues that led to sequestration. While the precise magnitude of potential subsequent year cuts is unknown at this time, if Congress takes no action and current law remains in place, OMB projected an "8.2 percent reduction in non-exempt nondefense discretionary funding."

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 the longer day/year incentive funding for the 2009-10 through 2014-15 school years. The final budget language continues to provide all school districts, county offices of education and charter schools, with school year reduction flexibility through 2014-15.

Education Code 46207 has been amended to provide the withholding of LCFF apportionment from school districts offering less than the minimum educational minutes by grade span beginning with 2015-16. Education Code 46208 has been added requiring districts whose funding equals or exceeds their LCFF target to offer 180 days or more of instruction beginning with 2015-16.

Because of the sunset of Education Code 46201.2 flexibility along with the new provisions above, all basic aid districts, and any district or county office of education participating in the longer day/year incentive program, will need to plan to restore the 180-day school year and the annual instructional minutes requirement in the 2015-16 fiscal year.

The instructional days requirement for charter schools remains at 175 days. A school operating a multitrack year-round school is in compliance with the 180-day requirement if it certifies to the Superintendent [of Public Instruction] it is a multitrack year-round school and maintains its school for a minimum of 163 school days.

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 the California Department of Health Care Services (DHCS) of the plan to review school MAA claiming units in California. 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 submitted a response to the draft report and is waiting for a response from the Office of Inspector General.

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 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. As of May 23, 2013 the total deferral for districts claiming through a local education consortium is $116,601,253. The amount unpaid to LEAs claiming through a local government agency is not available at this time.

DHCS submitted a revised time study methodology and statewide implementation plan to CMS and 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.

Proposition 39

SB 73 (Chapter 29/Statutes 2013) is the implementation bill for Proposition 39, the California Clean Energy Jobs Act. It largely reflects the Governor's plan for the allocation of Proposition 39 funds as proposed with the May Revision. Proposition 39 provides for the creation of clean energy jobs, including funding energy efficiency projects and renewable energy installations in public schools, universities, and other public facilities.

For five fiscal years, 2013-14 through 2017-18, up to $550 million will be provided by Proposition 39. K-12 education (school districts, charter schools, and county offices of education) will be allocated $381 million of the total, with LEA distributions based 85% on a per-ADA allocation and 15% on the basis of free and reduced price meal-eligible students.

LEAs that receive more than $1 million must spend at least 50% of the funding on projects larger than $250,000 that achieve substantial energy efficiency, clean energy and jobs benefits.

The California Energy Commission will provide specific guidance for the use and reporting requirements associated with Proposition 39 funds. LEAs should not commit the anticipated funds until the guidelines are released. It is expected that the CEC will require advance approval of projects prior to expenditure of funds.

Redevelopment Agencies (RDA)

When the Governor 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.

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.

The PERS employer contribution rate for 2013-14 is 11.442% as approved on June 18, 2013.

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 (object 38xx) will be eliminated, as well as PERS reduction transfer (object 8092). Payroll systems should be updated to reflect 0% for PERS revenue limit reduction. Without a statutory cap on PERS contributions, an LEA's exposure to the increasing contribution rates is likely to occur. 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 Budget 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 will be funded outside the LCFF, with funding for ADA growth and a 1.565% COLA. The statewide target rate will be completely recomputed for the first time since the AB602 funding formula was implemented in the 1998-99 school year.

- Based on this new recomputed rate, SELPAs with growth are expected to receive an estimated $502.25 per ADA and an estimated COLA of $7.86 per ADA.

The enacted budget changes 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.

In addition, the budget rolls $92.7 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 $429 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 $429 million will be allocated on a per-ADA basis to the SELPAs.

The past claims for Behavioral Intervention Plans (BIP) are not mentioned in this budget. The BIP mandate for the future appears to be scaled back in the language, and there are no mandate funds owed going forward. This is being challenged by the California School Boards Association.

45-Day Budget Revisions

Education Code 42127(i)(4) states that, "Not later than 45 days after the Governor signs the annual Budget Act, the school district shall make available for public review any revisions in revenues and expenditures that it has made to its budget to reflect the funding made available by that Budget Act." The Governor signed the Budget Act on June 27, 2013, which means that the 45-day deadline falls on Sunday, August 11, 2013.

Situational Guidance to Districts and Multiyear Projections (MYP)

The LCFF will uniquely impact each district and, consequently, budget guidance must be situational. Some districts will receive no additional funding, while others may receive a significant down payment toward their LCFF targets. During our review of the 2013-14 adopted budgets, we will have conversations with each school district to discuss situational guidance on an individual basis.

As districts incorporate LCFF implementation funding into their MYPs, each district will have a unique set of financial risk factors. These risk factors are critically important in determining reserve levels and contingency planning. Best practices for assessing district risk factors begin with using the Fiscal Crisis and Management Assistance Team's (FCMAT's) Key Fiscal Indicators (Appendix D).

Assessing District Risk Factors under LCFF:

- FCMAT's Key Fiscal Indicators

- Unique year-over-year LCFF funding percentage increases during implementation. For example, high percentage increases heighten the need for a disciplined approach when committing to increased programmatic spending in addition to ensuring the flexibility to adjust expenditure levels in the future.

One tool for calculating variable risk factors is the BASC LCFF MYP Calculator. This calculator provides input fields for modeling variable factors. These variable input fields include ADA, unduplicated percentages, gap percentages and COLA percentages, allowing districts to create multiple models when building MYPs. These models will assist in planning and assessing risk levels. Further, each model will produce its own unique revenue percentage increases.

Assessing State Risk Factors Under LCFF:

- State revenues are based on a ***projected*** state revenue growth trend

- State revenues are dependent on volatile personal income

- LCFF year-over-year increases are dependent on annual general fund revenue growth as allocated through the annual state budget process

- Proposition 30 revenues are temporary

    - In 2016 the additional ¼ cent sales tax expires.

        - Estimated to generate approximately 20% of Proposition 30's temporary taxes

    - In 2018 the increase to personal income tax for high income earners expires

        - Estimated to generate approximately 80% of Proposition 30's temporary taxes

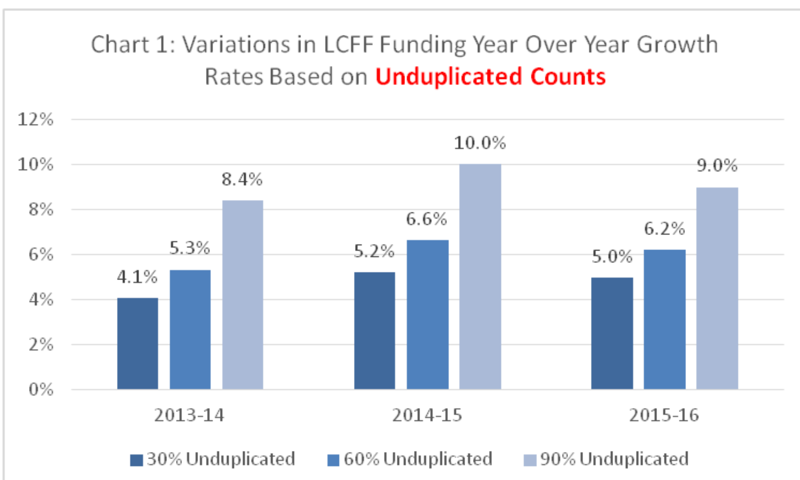
The Shift from Revenue Limit to LCFF

Historically, projected COLAs and deficits have been the standard for building multiple year projections. The application and significance of COLAs under the LCFF takes 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 will be the result of ADA growth or decline, COLAs, and unduplicated EL, Free and Reduced and Foster Youth counts, and the percentage of implementation (gap) funding.
- Upon full implementation of the LCFF, year-to-year funding changes will be the result of ADA growth or decline, COLAs, and unduplicated EL, Free and Reduced and Foster Youth counts.

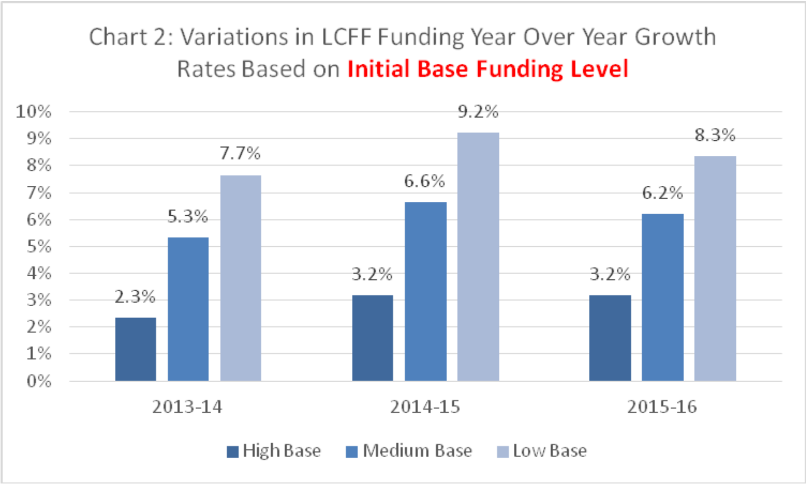
Examples of High, Medium and Low LCFF Target Growth Districts

Further underscoring the need for situational guidance is the fact that growth funding for districts will also vary in the percentages of growth coming from base grant versus supplemental and concentration grant increases. The percentage increase in funding that any particular district receives will vary based on the factors described above. Consider, for example, three districts that are identical in all respects except that their unduplicated pupil counts range from a low of 30% to a high of 90%. As can be seen in the Chart 1 below, their respective rates of funding growth vary significantly based on this factor alone.



Assumptions: Using the BASC LCFF Calculator, the only parameter that was changed across the three sample districts was the unduplicated count percentages. ADA (7,591) and unduplicated count percentages held constant in all years, DOF projected gap funding estimates, base funding at the same level ($47.3 mil.) for all three sample districts.

In addition, consider the example of three districts that are identical in all respects except that their 2012-13 base funding levels vary due to differences in historical revenue limit rates and/or levels of categorical funding. Again, as can be seen in Chart 2 below, their respective rates of funding growth vary significantly based solely on this factor, because the high base funded district is closer to its full implementation LCFF target, and thus needs less growth to reach the target as compared with the districts with lower base funding.



Assumptions: Using the BASC LCFF Calculator, the only parameter that was changed across the three sample districts was the 2012-13 base funding amount (High = $57.3 mil., Medium = $47.3 mil., Low = $41.6 mil.). ADA (7,591) and unduplicated count percentages (60%) held constant in all years. DOF projected gap funding estimates and unduplicated count percentages are at the same level for all three sample districts.

Multiyear Projections

On July 18, the Department of Finance (DOF) updated its estimates for LCFF gap funding for 2013-14, 2014-15 and 2015-16.

Year	2013-14	2014-15	2015-16
Gap Funding	11.78%	16.49%	18.69%

Table 1

The 2013-14 enacted state budget provides each district and charter school with increased funding equal to approximately 11.78% of the difference between their current funding level and their LCFF target in 2013-14. The percentages provided in **Table 1** are based on the economic forecasts provided by the DOF as of the enacted budget. These percentages are derived from growth in Proposition 98 funding as directed toward funding the LCFF until full implementation. According to the DOF, Prop. 98 growth is projected to provide increased LCFF funding equal to 16.49% of the remaining difference in 2014-15 and 18.69% in 2015-16.

During implementation gap funding percentages will grow over time to 100% by 2021-22. As gap percentages grow, the actual LCFF funding gap will shrink until funding amounts equal individual district and charter school LCFF targets.

Cost of Living Adjustments (COLA)

The LCFF calls for cost of living adjustments (COLA) for school districts and county offices of education base funding through implementation of the LCFF.

Under the LCFF, the COLA of 1.57% is applied to the entitlement targets and funded at 11.78% of the difference between 2012-13 revenues and the target amounts. 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) will receive no COLA because COLA is applied to the LCFF target amount.

During the transition to full LCFF implementation, it is important for LEAs to understand that COLA is no longer the key determinant of funding growth. LCFF gap funding, and more specifically, the degree to which districts receive supplemental and concentration grant funding will be much more significant drivers of funding growth for most LEAs. The Situational Guidance and Multiyear Projection section of this Common Message discusses potential COLAs in the subsequent years.

Negotiations

School districts considering a multiyear contract or a contract that increases ongoing obligations need to exercise caution and maintain flexibility through contingency language that protects the district from cost increases and/or revenue shortfalls beyond their control. These factors include but are not necessarily limited to the following:

Factors Beyond District Control

- Future Funding of the LCFF
    - Current estimates for gap percentage funding are dependent on projected increases in state revenue growth. The state's economy is in the early stages of an economic recovery period. The extent of this recovery is estimated based on factors known today. These factors will likely change.
- LCFF Accountability Regulations (EC 42238.07)
    - No later than January 31, 2014, the SBE must adopt regulations governing the expenditure of supplemental and concentration grant funds. The LCFF states that the SBE regulations must require an LEA "to increase or improve services for unduplicated pupils in proportion to its increase in

funds apportioned on the basis of the number and concentration of unduplicated pupils."

  - The LCFF legislation also authorizes a LEA to use funds apportioned on the basis of the number of unduplicated pupils for schoolwide purposes in a manner that is no more restrictive than provided for in Title I of the federal No Child Left Behind Act of 2001 (20 U.S.C. Sec. 6301, et seq.)

  - LEAs will need to exercise caution and discretion when committing supplemental and concentration grant funds, while these regulations are pending. Compliance with the regulations will be subject to annual audits.

- Health Care Reform Costs

  - Health care reform may create 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.

- Retirement Employer Contribution Rates (please refer to the retirement section)

  - CALPERS rates are set by the CALPERS Board and are expected to increase, and LEAs are no longer protected by the 13.02% cap that existed under PERS reduction.

  - CALSTRS rates are set legislatively. Multiple options are being considered for raising rates.

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

Districts should be reminded of the requirement for AB 1200 disclosure of collective bargaining agreements and the opportunity such disclosure provides for a district to receive COE assistance in assessing the impact of a proposed agreement.

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 were 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 the end of the current 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 one of the most compelling. This is especially true during LCFF implementation because gap percentage funding is directly tied to the state's ongoing ability to fund the LCFF through Proposition 98 growth. Most importantly, higher than minimum reserves provide protection from volatile state revenues, thereby creating a more stable educational environment for students.

Summary

Since the 2008-09 school year, there have been unprecedented funding reductions to California's public schools. Now schools are faced with the promise of funding increases for the first time in many years, coupled with a new type of uncertainty in the form of the LCFF. We encourage school districts to maintain best fiscal practices and be proactive in preserving fiscal solvency by developing plans that allow maximum flexibility.

Hold Harmless

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
- Advanced Placement and IB
- 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
- GATE
- Home to School Transportation
- Instructional Materials Block Grant
- Math and Reading Professional Development
- National Board Certification Incentives
- 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
- 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.

<table>
<tr><th>Annual Submission</th><th>State or Federal</th><th>State/Federal Data Usage</th><th>LEA Impact if Not Certified</th></tr>
<tr><td rowspan="14"><u>Fall 1:</u>
• 2012–13 enrollment counts
• 2011–12 Grads & Dropouts
• Immigrant counts
• Free and reduced meal counts</td><td rowspan="6">State</td><td>DataQuest (Enrollment, Graduates, Dropouts, and SNOR)</td><td>0 counts</td></tr>
<tr><td>School Accountability Report Card (SARC)</td><td>No SARC prepopulation</td></tr>
<tr><td>Economic Impact Aid (EIA) funding calculation</td><td>0 counts & impact on funding for COEs operating Juvenile Court schools and EIA-designated small rural districts</td></tr>
<tr><td>Quality Education Investment Act (QEIA) funding</td><td>0 counts & 0 funding</td></tr>
<tr><td>Department of Finance for budget projections</td><td>0 counts</td></tr>
<tr><td>To address requests from policy makers, researchers, and other entities</td><td>0 counts</td></tr>
<tr><td rowspan="7">Federal</td><td>Adequate Yearly Progress (AYP) targets</td><td>Failed AYP & API</td></tr>
<tr><td>Title I and Title II</td><td>0 counts & 0 funding for COEs and Direct Funded Charter schools</td></tr>
<tr><td>NCLB Consolidated State Performance Report (CSPR)</td><td>0 counts</td></tr>
<tr><td>NCLB Title III Immigrant Program (SNOR)</td><td>0 counts & 0 funding</td></tr>
<tr><td>Titles VI & IX reports for the Civil Rights Act of 1964</td><td>0 counts</td></tr>
<tr><td>Individuals with Disabilities Education Act (IDEA)</td><td>0 counts</td></tr>
<tr><td>Various U.S. Department of Education (ED) organizational websites</td><td>0 counts</td></tr>
<tr><td>Both</td><td>Eligibility to apply for various state and federal grants (especially those based on counts of socioeconomically disadvantaged students)</td><td>0 counts and ineligibility to apply for grants</td></tr>
<tr><td rowspan="5"><u>Fall 2:</u>
• Staff assignments
• Student course enrollments
• English Learner services
• Highly Qualified Teacher</td><td rowspan="3">State</td><td>DataQuest (Teacher Counts, Course Enrollments, and EL Services)</td><td>0 counts</td></tr>
<tr><td>CCR Title V, Section 97 (certificated staff)</td><td>0 counts</td></tr>
<tr><td>EL Services</td><td>0 counts</td></tr>
<tr><td rowspan="2">Federal</td><td>NCLB Consolidated State Performance Report (CSPR)</td><td>0 counts</td></tr>
<tr><td>Highly Qualified Teacher (HQT)</td><td>0 counts and potential placement on sanction list</td></tr>
<tr><td rowspan="4"><u>Spring 1:</u>
• Immigrant counts
• English Language Acquisition Status</td><td rowspan="2">State</td><td>DataQuest (EL and FEP Counts, and SNOR)</td><td>0 counts</td></tr>
<tr><td>Economic Impact Aid (EIA) Program</td><td>0 counts & impact on funding</td></tr>
<tr><td rowspan="2">Federal</td><td>NCLB Title III Limited English Proficiency Program</td><td>0 counts & 0 funding</td></tr>
<tr><td>NCLB Title III Immigrant Program (SNOR)</td><td>0 counts & 0 funding</td></tr>
</table>

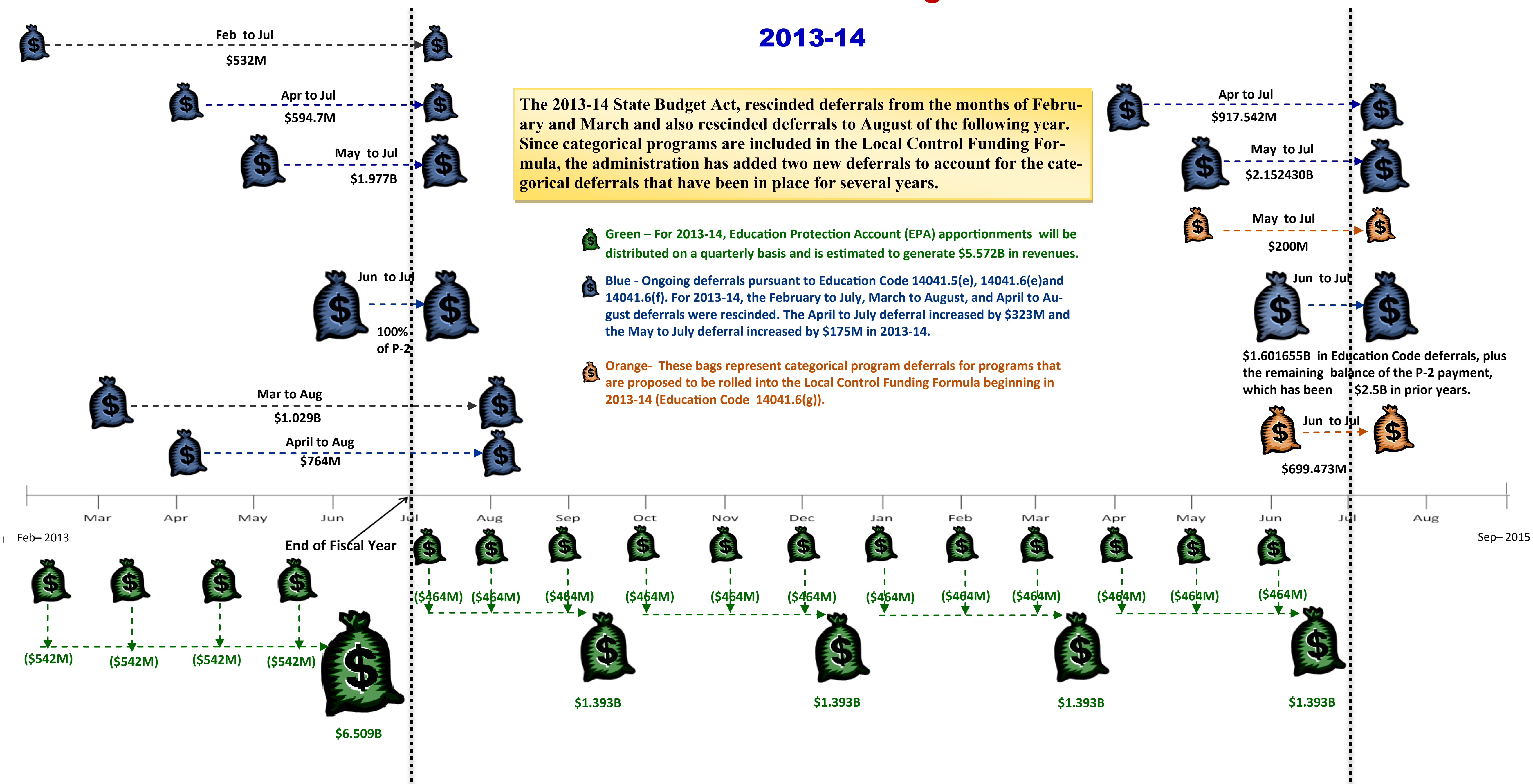
How Certified CALPADS Data are Used and Consequences

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	

Delayed Principal Apportionment Funding

Appendix C

2013-14 State Budget Act



July 8, 2013

Fiscal Health Risk Analysis

Key Fiscal Indicators

FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
CSIS California School Information Services

The Fiscal Health and Risk Analysis was developed by FCMAT as a management tool to evaluate key fiscal indicators that will assist a school district in measuring its financial solvency for the current and two subsequent fiscal years as recommended by AB 1200. The presence of any single criteria is not necessarily an indication of a district in fiscal crisis. However, districts exceeding the risk threshold of six or more "No" responses may have cause for concern and require some level of fiscal intervention. Diligent planning will enable a district to better understand its financial objectives and strategies to sustain its financial solvency. A district must continually update its budget as new information becomes available from within the district or from other funding and regulatory agencies.

The Fiscal Health and Risk Analysis includes 17 components of key fiscal indicators to measure a district's potential risk. Any of the 17 individual components receiving a simple majority of "No" responses to the questions it contains should be rated with an overall "No" response.

Is the district's fiscal health acceptable in the following areas?	Yes	No	N/A
1. Deficit Spending	❏	❏	❏
• Is the district avoiding deficit spending in the current year?	❏	❏	❏
• Is the district avoiding deficit spending in the two subsequent fiscal years?	❏	❏	❏
• Has the district controlled deficit spending over the past two fiscal years?	❏	❏	❏
• Is the issue of deficit spending addressed by fund balance, ongoing revenues, or expenditure reductions?	❏	❏	❏
- Has the board approved a plan to eliminate deficit spending?			
2. Fund Balance	❏	❏	❏
• Is the district's fund balance at or consistently above the recommended reserve for economic uncertainty?	❏	❏	❏
• Is the fund balance stable or increasing due to ongoing revenues and/or expenditure reductions?	❏	❏	❏
• Does the fund balance include any designated reserves for unfunded liabilities or one time costs above the recommended reserve level?	❏	❏	❏
3. Reserve for Economic Uncertainty	❏	❏	❏
• Is the district able to maintain its reserve for economic uncertainty in the current and two subsequent years based on current revenue and expenditure trends?	❏	❏	❏
• Does the district have additional reserves in Fund 17, Special Reserve for Non Capital Projects?	❏	❏	❏
• If not, is there a plan to restore the reserve for economic uncertainties in the district's multiyear financial projection?	❏	❏	❏

Is the district's fiscal health acceptable in the following areas?	Yes	No	N/A
4. Enrollment	❑	❑	❑
• Has the district's enrollment been increasing or stable for multiple years?	❑	❑	❑
• Is the district's enrollment projection updated at least semiannually?	❑	❑	❑
• Are staffing adjustments for certificated and classified employee groups consistent with the enrollment trends?	❑	❑	❑
• Does the district analyze enrollment and average daily attendance (ADA) data?	❑	❑	❑
• Does the district track historical data to establish future trends between P-1 and P-2 for projection purposes?	❑	❑	❑
• Has the district implemented any attendance programs to increase ADA?	❑	❑	❑
• Have approved charter schools had little or no impact on the district's student enrollment?	❑	❑	❑
• Does the district have a board policy that attempts to reduce the effect that transfers out of the district have on the district's enrollment?	❑	❑	❑
5. Interfund Borrowing	❑	❑	❑
• Can the district manage its cash flow in all funds without interfund borrowing?	❑	❑	❑
• Is the district repaying the funds within the statutory period in accordance with Education Code section 42603?	❑	❑	❑
6. Bargaining Agreements	❑	❑	❑
• Has the district settled the total cost of the bargaining agreements at or under COLA during the current and past three years?	❑	❑	❑
• Did the district conduct a pre-settlement analysis identifying an ongoing revenue source to support the agreement?	❑	❑	❑
• Did the district correctly identify the related costs above the COLA, (i.e. statutory benefits, step and column)?	❑	❑	❑
• Did the district address budget reductions necessary to sustain the total compensation increase including a board-adopted plan?	❑	❑	❑
• Did the superintendent and CBO certify the agreement prior to ratification?	❑	❑	❑
• Is the governing board's action consistent with the superintendent's/CBO's certification?	❑	❑	❑
• Did the district submit to the county office of education the AB 1200\2756 full disclosure as required?	❑	❑	❑

Is the district's fiscal health acceptable in the following areas?	Yes	No	N/A

7. General Fund ❏ ❏ ❏

- Is the percentage of the district's general fund unrestricted budget allocated to salaries and benefits at or under the statewide average? . . . . ❏ ❏ ❏

Salary and Benefit Expense as a Percentage of Total Expense

Statewide Averages	***Unrestricted General Fund*** *2006-07*	*2007-08*	*2008-09*	***Total General Fund*** *2006-07*	*2007-08*	*2008-09*
Unified	90.84%	91.77%	92.16%	82.14%	82.12%	83.00%
Elementary	89.56%	90.51%	90.77%	80.94%	80.96%	82.05%
High School	87.83%	89.19%	89.20%	79.61%	80.60%	81.81%

Source: School Services of California

- Is the district making sure that only ongoing restricted dollars pay for permanent staff? . . . . ❏ ❏ ❏
- Does the budget include reductions in expenditures proportionate to one-time revenue sources, such as parcel taxes, that will terminate in the current or two subsequent fiscal years? . . . . ❏ ❏ ❏
- If the district receives redevelopment revenue that is subject to AB 1290 and SB 617, has it made the required offset to the revenue limit? . . . . ❏ ❏ ❏

8. Encroachment ❏ ❏ ❏

- Is the district aware of the Contributions to Restricted Programs in the current year? (Identify cost, programs and funds) . . . . ❏ ❏ ❏
- Does the district have a reasonable plan to address increased encroachment trends? . . . . ❏ ❏ ❏
- Does the district manage encroachment from other funds such as Adult, Cafeteria, Child Development, etc.? . . . . ❏ ❏ ❏

9. Management Information Systems ❏ ❏ ❏

- Is the district's financial data accurate and timely? . . . . ❏ ❏ ❏
- Are the county and state reports filed in a timely manner? . . . . ❏ ❏ ❏
- Are key fiscal reports readily available and understandable? . . . . ❏ ❏ ❏
- Is the district on the same financial system as the county? . . . . ❏ ❏ ❏
- If the district is on a separate financial system, is there an automated interface with the financial system maintained by the county? . . . . ❏ ❏ ❏

Is the district's fiscal health acceptable in the following areas?	Yes	No	N/A
10. Position Control	❏	❏	❏
• Does the district maintain a reliable position control system?	❏	❏	❏
• Is position control integrated with payroll?	❏	❏	❏
• Does the district control unauthorized hiring?	❏	❏	❏
• Are the appropriate levels of internal controls in place between the business and personnel departments to prevent fraudulent activity?	❏	❏	❏
• Does the district use position control data for budget development?	❏	❏	❏
• Is position control reconciled against the budget during the fiscal year?	❏	❏	❏
11. Budget Monitoring	❏	❏	❏
• Are budget revisions completed in a timely manner?	❏	❏	❏
• Does the district openly discuss the impact of budget revisions at the board level?	❏	❏	❏
• Are budget revisions made or confirmed by the board at the same time the collective bargaining agreement is ratified?	❏	❏	❏
• Has the district's long term debt decreased from the prior fiscal year?	❏	❏	❏
• Has the district identified the repayment sources for long term debt or non voter-approved debt, i.e. certificates of participation, capital leases?	❏	❏	❏
• Does the district's financial system have a hard coded warning regarding insufficient funds for requisitions and purchase orders?	❏	❏	❏
• Does the district encumber salaries and benefits?	❏	❏	❏
12. Retiree Health Benefits	❏	❏	❏
• Has the district completed an actuarial valuation to determine the unfunded liability under GASB 45 requirements?	❏	❏	❏
• Does the district have a plan for addressing the retiree benefits liabilities?	❏	❏	❏
• Has the district conducted a re-enrollment process to identify eligible retirees?	❏	❏	❏
13. Leadership/Stability	❏	❏	❏
• Does the district have a superintendent and/or chief business official that has been with the district more than two years?	❏	❏	❏
• Does the governing board adopt clear and timely policies and support the administration in their implementation?	❏	❏	❏

Is the district's fiscal health acceptable in the following areas?	Yes	No	N/A
14. Charter Schools	❑	❑	❑
• Has the district identified a specific employee or department to be responsible for oversight of the charter?	❑	❑	❑
• Has the charter school submitted the required financial reports?	❑	❑	❑
• Has the charter school commissioned an independent audit?	❑	❑	❑
• Does the audit reflect findings that will not impact the fiscal certification of the authorizing agency?	❑	❑	❑
• Is the district monitoring and reporting the current status to the board to ensure that an informed decision can be made regarding the reauthorization of the charter?	❑	❑	❑
15. Audit Report	❑	❑	❑
• Did the district receive an audit report without material findings?	❑	❑	❑
• Can the audit findings be addressed without impacting the district's fiscal health?	❑	❑	❑
• Has the audit report been completed and presented within the statutory time line?	❑	❑	❑
• Are audit findings and recommendations reviewed with the board?	❑	❑	❑
• Did the audit report meet both GAAP and GASB standards?	❑	❑	❑
16. Facilities	❑	❑	❑
• Has the district passed a general obligation bond?	❑	❑	❑
• Has the district met the audit and reporting requirements of Proposition 39?	❑	❑	❑
• Is the district participating in the state's School Facilities Program?	❑	❑	❑
• Does the district have sufficient personnel to properly track and account for facility-related projects?	❑	❑	❑
• Has the district met the reporting requirements of the Williams Act?	❑	❑	❑
• Is the district properly accounting for the 3% Routine Repair and Maintenance Account requirement at the time of budget adoption?	❑	❑	❑
• If needed, does the district have surplus property that may be sold or used for lease revenues?	❑	❑	❑
• If needed, are there other potential statutory options?	❑	❑	❑
- Joint Use: Can the district enter into a joint use agreement with some entities without declaring the property surplus and without bidding?			
- Joint Occupancy: The Education Code provides for a joint venture that can authorize private development of district property that will result in some educational use.			

- Does the district have a facilities master plan that was completed or updated in the last two years? . . . . ❑ ❑ ❑

17. General Ledger ❑ ❑ ❑

- Has the district closed the general ledger (books) within the time prescribed by the county office of education?? . . . . ❑ ❑ ❑
- Does the district follow a year-end closing schedule? . . . . ❑ ❑ ❑
- Have beginning balances in the new fiscal year been recorded correctly for each fund from the prior fiscal year? . . . . ❑ ❑ ❑
- Does the district adjust prior year accruals if the amounts actually received (A/R) or paid (A/P) are greater or less than the amounts accrued? . . . . ❑ ❑ ❑
- Does the district reconcile all payroll suspense accounts at the close of the fiscal year? . . . . ❑ ❑ ❑

RISK ANALYSIS

1. Total the number of component areas in which the district's fiscal health is not acceptable ("No" responses).
2. Use the key below to determine the level of risk to the district's fiscal health.

0 – 4	5 – 9	10 – 14	15 – 17
Low	Moderate	High	Extremely High

Total "No" Responses

ENTER DISTRICT NAME | **ENTER DATE**

PART I - LOCAL CONTROL FUNDING FORMULA

LOCAL CONTROL FUNDING FORMULA | **BUDGET ADOPTION JUNE 2013 V.14-2**

CALCULATE LCFF TARGET

	2013/14	2014/15	2015/16
COLA	1.565%	1.800%	2.300%
Unduplicated as % of Enrollment / 2 yr average / 3 yr average	0.00%	0.00%	0.00%

2013/14

	ADA	Base	Gr Span	Supp	Concen	TARGET
Grades K-3	-	6,952	723	-	-	-
Grades 4-6	-	7,056		-	-	-
Grades 7-8	-	7,266		-	-	-
Grades 9-12	-	8,419	219	-	-	-
Subtract NSS	-	-	-			-
NSS Allowance		-				-
TOTAL BASE	-	-	-	-	-	-
K-3 Grade Span Penalty						-
Targeted Instructional Improvement						-
Transportation						-
LOCAL CONTROL FORMULA FUNDING (LCFF) TARGET						-

2014/15

	ADA	Base	Gr Span	Supp	Concen	TARGET
Grades K-3	-	7,077	736	-	-	-
Grades 4-6	-	7,183		-	-	-
Grades 7-8	-	7,397		-	-	-
Grades 9-12	-	8,571	223	-	-	-
Subtract NSS	-	-	-			-
NSS Allowance		-				-
TOTAL BASE	-	-	-	-	-	-
K-3 Grade Span Penalty						-
Targeted Instructional Improvement						-
Transportation						-
LOCAL CONTROL FORMULA FUNDING (LCFF) TARGET						-

2015/16

	ADA	Base	Gr Span	Supp	Concen	TARGET
Grades K-3	-	7,240	753	-	-	-
Grades 4-6	-	7,348		-	-	-
Grades 7-8	-	7,567		-	-	-
Grades 9-12	-	8,768	228	-	-	-
Subtract NSS	-	-	-			-
NSS Allowance		-				-
TOTAL BASE	-	-	-	-	-	-
K-3 Grade Span Penalty						-
Targeted Instructional Improvement						-
Transportation						-
LOCAL CONTROL FORMULA FUNDING (LCFF) TARGET						-

CALCULATE ECONOMIC RECOVERY TARGET	2013/14	2020/21
Revenue Limit per ADA inflated to 2020/21	-	-
Charter General Purpose BG/ADA inflated to 2020/21	-	-
Categorical Base per ADA	-	-
Total Economic Recovery Target per ADA	-	-
Statewide 90th percentile rate	14,500.00	14,500.00
2020-21 LCFF Target rate per ADA	-	-
ECONOMIC RECOVERY TARGET per ADA		-
ECONOMIC RECOVERY TARGET x 2012-13 ADA		-

	2013/14		2014/15		2015/16	
ECONOMIC RECOVERY TARGET PAYMENT	1/8	-	2/8	-	3/8	-

PART II - LOCAL CONTROL FUNDING FORMULA TRANSITION

CALCULATE TRANSITION BASE FUNDING:	2013/14	2014/15	2015/16
Current year Funded ADA times Base per ADA	-	-	-
Necessary Small School Allowance	-	-	-
2012-13 Categoricals	-	-	-
2012-13 Charter Categorical & Supplemental BG/ 12-13 ADA * cy ADA	-	-	-
Beginning in 2014-15, prior year LCFF gap funding per ADA * cy ADA		-	-
TRANSITION BASE FUNDING	-	-	-

CALCULATE LCFF TRANSITION FUNDING

		2013/14		2014/15		2015/16
LOCAL CONTROL FUNDING FORMULA TARGET		-		-		-
TRANSITION BASE FUNDING		-		-		-
Difference or GAP		-		-		-
Multiply difference by funding rate	11.78%	-	16.49%	-	18.69%	-
ECONOMIC RECOVERY PAYMENT		-		-		-
LCFF TRANSITION FUNDING		-		-		-
CHANGE OVER PRIOR YEAR	0.00%	-	0%	-	0%	-

RECAP TOTAL FUNDING UNDER LCFF TRANSITION AT 42238.03

	2012/13		Increase	2013/14		Increase	2014/15		Increase	2015/16
State Aid	-	0%	-	-	0%	-	-	0%	-	-
EPA funding	-	0%	-	-	0%	-	-	0%	-	-
Property Taxes net of in-lieu	-	0%	-	-	0%	-	-	0%	-	-
Charter in-Lieu Taxes	-	0%	-	-	0%	-	-	0%	-	-
LCFF Transition Funding	-	0%	-	-	0%	-	-	0%	-	-

CALCULATE STATE GENERAL FUND AID			
LCFF Transition Funding	-	-	-
Less Property Taxes including RDA	-	-	-
LCFF Transition state aid	-	-	-
However, hold harmless for prior year State Aid (as adjusted)	-	-	-
Less EPA (if state aid provided for RL base + GAP)	-	-	-
LCFF Transition state general fund aid	-	-	-

CALCULATE HOLD HARMLESS				
If Base funding exceeds LCFF, then funded on LCFF	2012/13	HOLD HARMLESS	HOLD HARMLESS	HOLD HARMLESS
Subtotal 2012-13 RL/Charter Gen BG adjusted for ADA	-	At Target	At Target	At Target
Less Current Year Property Taxes/In Lieu	-	-	-	-
Subtotal State Aid for Historical RL/Charter General BG	-	-	-	-
Categorical funding from 2012-13	-	-	-	-
Charter Categorical Block Grant adjusted for ADA	-	-	-	-
Total Held Harmless	-	-	-	-

CALCULATE APPLICATION OF EPA								
EPA award	2012-13	2013-14						
LCFF Funding - Base RL + Ongoing GAP	-	-			-		-	
Property Taxes/In-Lieu	-	-			-		-	
Gross State Aid	-	-			-		-	
Gross EPA Entitlement	-	-			-		-	
Min EPA $200/ADA	-	-			-		-	
Local Revenue and EPA in excess of Revenu	-	-			-		-	
Reduced EPA Entitlement	-	-			-		-	
Estimated EPA	-	-		-	-	-	-	-
Base revenue limit funding plus ongoing LCFF Transition funding			-	-		-		-
Less Property taxes			-	-		-		-
EPA funding offsets state aid			-	-		-		-

PART III - DETERMINE 'BASIC AID' STATUS			
LCFF Transition Grant	-	-	-
Less Property Taxes	-	-	-
Gross State Aid before held harmless provision	-	-	-
Held Harmless State Aid	-	-	-
Basic Aid if Gross State Aid is less than Held Harmless	BASIC AID	BASIC AID	BASIC AID
Total State Aid provided through LCFF independent of EPA	-	-	-
Minimum Guarantee $120/ADA or $2,400	2,400	2,400	2,400