



February 25, 2014

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

Re: 2013-14 Second Interim Budget Advisory

This budget advisory is intended to provide information and guidance to assist local educational agencies (LEAs) in developing 2013-14 Second Interim Reports.

It contains significant updates from the First Interim budget advisory related to the Governor's 2014-15 Proposed Budget, adoption by the State Board Education of the Local Control and Accountability Plan (LCAP) template and the Supplemental and Concentration Grant regulations, new K-12 Audit Guide procedures, and a number of technical clarifications.

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

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Significant Changes since First Interim Governor's Budget Proposal

On January 9, 2014 Governor Brown's administration released its 2014-15 budget proposal, which includes significant increases in Proposition 98 funding levels for 2012-13, 2013-14, and 2014-15 relative to the funding contained in the 2013-14 Adopted Budget. Highlights of the proposed uses of these new resources in K-12 education for 2014-15 are as follows:

- **K-12 Interyear Deferral Funding** – Provides for the elimination of all remaining interyear deferrals by the end of 2014-15.
- **School District and Charter Local Control Funding Formula (LCFF) Funding** – Provides an increase of approximately \$4.5 billion for continued implementation of LCFF for school districts and charter schools in 2014-15 (a 10.9% overall or total increase). This increase also reflects an adjustment to LCFF funding targets through the application of a 0.86% cost of living adjustment.
- **County Office of Education LCFF Funding** – Provides an increase of \$25.9 million for continued implementation of LCFF to county offices of education in 2014-15.
- **Charter School Growth** – Provides an increase of \$74.3 million to support projected charter school average daily attendance (ADA) growth.
- **Cost of Living Adjustment for Categorical Programs** - Provides \$33.3 million to support an 0.86% cost of living adjustment for categorical programs that remain outside the LCFF, including Special Education, Child Nutrition, American Indian Education Centers, and the American Indian Early Childhood Education Program.
- **Emergency Repair Program** – Provides an increase of \$188.1 million in one-time Proposition 98 General Fund resources to meet the Williams Emergency Repair Program obligations.

More detail on how these proposals will impact district LCFF revenue calculations, multi-year projections (MYPs), and cash flow projections are contained in subsequent sections.

The Governor also proposes reforms including:

- **Rainy-Day Fund** – An enhanced rainy-day fund including the creation of a Proposition 98 reserve, whereby spikes in K-14 funding, produced in

years when capital gains revenue exceeds 6.5% of total general fund revenue, would be saved for future years when revenues are declining.

- **LCFF Continuous Appropriation** – Under current law, prior-year LCFF appropriations are continuously appropriated, but any year over year increases in LCFF funding are made at the discretion of the Governor and the Legislature. The Governor proposes a set percentage (as yet unspecified) of Proposition 98 funding to be automatically dedicated to LCFF each year, thereby providing for automatic LCFF growth in years when Proposition 98 is increasing.
- **Independent Study** – The Governor proposes to increase flexibility and streamline the administrative work for independent study programs by allowing LEAs the option to translate a course into an equivalent number of hours for the purposes of generating funding. (See the dedicated Independent Study section for details).
- **School Facilities** – The Governor does not endorse a 2014 statewide school facilities bond. Instead he proposes the creation of a 2014 Five Year Infrastructure Plan to continue a dialogue on the future of school facilities funding, including consideration of what role, if any, the state should play. The Governor asserts that any future program should be designed to provide districts with the tools and resources to address their core facility gaps. Any future facilities program should also avoid an unsustainable reliance on state debt issuance that characterizes the current school facilities program. The Budget includes the following more concrete school facilities proposals:
 - Transfer \$211 million of remaining School Facility Program bond authority from the Seismic Mitigation (\$163 million), Career Technical Education (\$3 million), High Performance Incentive Grant (\$35 million), and Overcrowding Relief Grant programs (\$10 million), to the core New Construction (\$105.5 million) and Modernization (\$105.5 million) programs.
 - Dedicates \$188.1 million of one-time Proposition 98 General Fund to the Emergency Repair Program. Schools previously identified by the California Department of Education as ranked in deciles one, two, or three based on the 2006 Academic Performance Index are eligible for funding.

CalSTRS Unfunded Liability – The Governor calls for the development of a plan to address the STRS unfunded liability to be included in the 2015-16 budget, stating that “A new funding strategy should phase in contribution increases for employees, employers, and the state to allow parties to prepare for cost increases. Because retirement benefits are part of total compensation costs, school districts and community colleges should anticipate absorbing much of any new CalSTRS funding requirement. The state’s long

term role as a direct contributor to the plan should be evaluated.” (See the STRS / PERS section for more details on this issue.)

Proposition 98 Revenues

Fiscal Year 2012-13	Projected Statewide Revenue	Proposition 98 Calculation	Property tax portion of Prop 98	State Budget portion of Prop 98	Non- Proposition 98 Budget	Ending Balance
January 2013	\$ 95.4	53.6	16.1	37.5	55.4	.8
May	98.2	56.5	16.1	40.4	55.2	.9
Adopted	98.2	56.5	16.1	40.4	55.2	.9
January 2014	99.9	58.3	16.1	42.2	54.4	2.3

(all numbers in billions)

Fiscal Year 2013-14	Projected Statewide Revenue	Proposition 98 Calculation	Property tax portion of Prop 98	State Budget portion of Prop 98	Non- Proposition 98 Budget	Ending Balance
January 2013	\$ 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
January 2014	100.1	56.8	15.9	40.9	57.6	3.9

(all numbers in billions)

Fiscal Year 2014-15	Projected Statewide Revenue	Proposition 98 Calculation	Property tax portion of Prop 98	State Budget portion of Prop 98	Non- Proposition 98 Budget	Ending Balance
January 2014	\$ 106.1	61.6	16.5	45.1	61.7	3.2

(all numbers in billions)

For the prior year (2012-13), the current year (2013-14), and the budget year (2014-15,) state revenues are projected to increase significantly in all three years, in comparison to the current year state adopted budget. As a result, Proposition 98 jumps \$1.8 billion and \$1.5 billion, attributed to 2012-13 and 2013-14 respectively. However, despite the increase to \$56.8 billion in 2013-14, Proposition 98 funding remains *down* from 2012-13 levels. For the budget year, Proposition 98 totals rise to \$61.6 billion, which is an increase of \$6.3 billion above the adopted current year total of \$55.3 billion.

Despite the significant revenue increase from the adopted 2013-14 budget to the proposed 2014-15 budget, the Department of Finance (DOF) numbers are more conservative than the Legislative Analyst's Office's November projection.

LCAP / Supplemental and Concentration Regulations

LCAP Overview

The Local Control and Accountability Plan (LCAP) represents a fundamental shift in how LEAs will plan for, and be held accountable for, LCFF funding for all pupils. As such, LEAs will develop budgets and plans in 2014-15 reflecting LCFF funding and structures. The State Board of Education's (SBE) approved spending regulations and template are intended to guide expenditure plans according to locally defined goals and actions for all students, with particular emphasis on English learner, low income and foster youth pupils.

Further, the LCAP will demonstrate how services are provided to meet the needs of unduplicated pupils and improve the performance of all pupils in the state priority areas.

While revenues are growing, LEAs are unlikely to have enough new money to restore all the cuts made since 2007-08, and to meet all the competing demands for increased spending. LEA leadership will need to proactively involve stakeholders in a transparent and inclusive LCAP and budgeting process to obtain the consensus needed to make the right investments in the educational mission while maintaining fiscal solvency and flexibility.

The LCAP will describe stakeholder engagement and local goals and actions that are aligned with the state's priorities. The three-year plan is intended to promote and demonstrate:

- Local stakeholder engagement
- Simplicity
- Transparency
- Performance-focused outcomes
- Equity and support for all students

- Accountability
- Locally defined flexibility

Emergency Spending Regulations

On January 16, 2014, the State Board of Education (SBE) adopted Emergency Regulations for Additions to the California Code of Regulations, Title 5, Sections 15494-15497. In so doing the SBE committed to providing coherence between the spending regulations, templates, and the forthcoming evaluation rubric. The adopted emergency regulations covered both the spending requirements for supplemental and concentration grants and the LCAP template. The SBE will likely adopt permanent regulations within 180 days and is scheduled to do so by spring or summer.

Procedures for determining whether the district meets the SBE spending regulations will be included in the state audit guidelines. For 2013-14, the audit procedure will not have financial consequences. See the *Audit Requirements* section for details.

State Priorities for All Pupils

The state's priorities, as identified in Education Code Sections 52060 and 52066, are categorized into three areas:

- Conditions of Learning
 - **Basic** – appropriately credentialed and assigned teachers; access to standards-aligned instructional materials; facilities in good repair (Priority 1)
 - **Implementation of State Standards** – implementation of academic content and performance standards adopted by the state board (Priority 2)
 - **Course Access** – pupil enrollment in a broad course of study that includes all of the subject areas described in EC 51210 (Priority 7)
 - **Expelled pupils (COEs only)** – coordination of instruction of expelled pupils (Priority 9)
 - **Foster youth (COEs only)** – coordination of services including working with the county child welfare agency to share information, responding to the needs of the juvenile court system, and ensuring transfer of health and education records (Priority 10)
- Pupil Outcomes
 - **Pupil achievement** – performance on standardized tests; API scores; college and career readiness; share of English learners becoming proficient; advanced placement pass rates (Priority 4)

- **Other pupil outcomes** – outcomes, if available, in specific subject areas for grades 1-6, (EC 51210) and grades 7-12, (EC 51220) (Priority 8)
- Engagement
 - **Parent involvement** – efforts to seek parent input in decision making, promotion of parent participation in programs for unduplicated pupils and special needs (Priority 3)
 - **Pupil engagement** – school attendance rates, chronic absenteeism rates, middle school dropout rates, high school dropout rates, high school graduation rates (Priority 5)
 - **School climate** – pupil suspension rates, pupil expulsion rates, other local measures including surveys of pupils, parents and teachers on the sense of school safety and school connectedness (Priority 6)

LCAP Definitions

State priority areas means the priorities identified in Education Code Sections 52060 and 52066. For charter schools, “state priority areas” means the priorities identified in Education Code Section 52060 that apply for the grade levels served or the nature of the program operated by the charter school.

Unduplicated pupil means any of those pupils to whom one or more of the definitions included in Education Code Section 42238.01 apply, including low income (LI), English learner (EL), and foster youth (FY).

Services as used in Education Code Section 42238.07 may include, but are not limited to, services associated with the delivery of instruction, administration, facilities, pupil support services, technology, and other general infrastructure necessary to operate and deliver educational instruction and related services.

To improve services means to grow services in quality.

To increase services means to grow services in quantity.

LCAP Template

During the recent SBE hearing to adopt the emergency spending regulations and LCAP template, the LCAP was described as intended to encourage the telling of a story of support, impact, and improvement for all pupils with an emphasis on good planning, communication, and engagement. LEAs were encouraged to organize their planning around the template design.

The template includes three sections and each section provides an overview, a set of instructions and guiding questions.

1. Stakeholder Engagement

2. Goals and Progress Indicators
3. Actions, Services, and Expenditures

- **Section 3A** – describes actions for the goals described in Section 2 for all pupils
- **Section 3B** – describes actions for the goals described in Section 2 for EL, LI, and FY, above what is provided for all pupils, including pupils re-designated as English proficient.

In both 3A and 3B, actions are to be listed by year, along with anticipated expenditures and where they can be found in the LEA's budget. The LCAP is not limited to services supported by LCFF funds. Therefore, anticipated expenditures in the LCAP *may* include other funding sources, such as federal and local funding.

- **Section 3C** – describes the increase in supplemental and concentration grant funding. Also included will be a description of how the LEA anticipates expending funds in the LCAP year, including justification for districtwide, countywide, schoolwide or charterwide expenditures.
- **Section 3D** – describes how services for EL, LI, and FY are increased or improved in accordance with the minimum proportional percentage increase, as calculated in CCR 15496(a)(1-8). Section 3D further identifies the percentage of increase and describes how proportionality is met using a quantitative and/or qualitative description for EL, LI, and FY pupils as compared to services provided to all pupils in the LCAP year.

Conditions for Districtwide, Schoolwide, Countywide, and Charterwide Use

In both 3C and 3D, LEAs may demonstrate they have increased or improved services for unduplicated pupils by using funds apportioned for EL, LI, and FY pupils to upgrade the entire educational program of a school site, a school district, a charter school, or a county office under the following conditions:

Districts with an enrollment of unduplicated students in excess of 55% of total enrollment can spend supplemental/concentration funds districtwide if two criteria are met in the LCAP:

1. Description of the services being provided on a districtwide basis
2. Description of how services are directed toward meeting the district's goals for unduplicated students in the state priority areas

Districts with an enrollment of unduplicated students less than 55% of total enrollment can spend supplemental funds districtwide if three criteria are met in the LCAP:

1. Description of the services being provided on a districtwide basis
2. Description of how services are directed toward meeting the district's goals for unduplicated students in the state priority areas
3. Describe how the services are the most effective use of funds to meet the district's goals for its unduplicated pupils in the state priority areas

Districts with an enrollment of unduplicated students at a school that is in excess of 40% of the school's total enrollment can spend supplemental/concentration funds schoolwide if two criteria are met in the LCAP:

1. Description of the services being provided on a schoolwide basis
2. Description of how services are directed towards meeting the district's goals for unduplicated students in the state priority areas

Districts with an enrollment of unduplicated students at a school that is less than 40% of the school's total enrollment can spend supplemental funds schoolwide if three criteria are met in the LCAP:

1. Description of the services being provided on a schoolwide basis
2. Description of how services are directed towards meeting the district's goals for unduplicated students in the state priority areas
3. Describe how the services are the most effective use of funds to meet the district's goals for its unduplicated pupils in the state priority areas

A county office of education expending supplemental and concentration grant funds on a countywide basis or a charter school expending supplemental and concentration funds on a charterwide basis shall do all of the following:

1. Identify in the LCAP those services that are being provided on a countywide or charterwide basis
2. Describe in the LCAP how such services are directed toward meeting the county office of education or charter school's goals for its unduplicated pupils in the state priority areas

Can LEAs upgrade the entire educational program using supplemental & concentration funds?

Does your district have an unduplicated count in excess of 55%?	YES	<ul style="list-style-type: none"> Describe the services being provided on a districtwide basis Describe how services are directed toward meeting the district's goals for unduplicated students in the state priority areas
	NO	<ul style="list-style-type: none"> In addition to the two steps listed above, also... Describe how the services are the most effective use of funds to meet the district's goals for its unduplicated pupils in the state priority areas

Does your district have a school site with an unduplicated count in excess of 40%?	YES	<ul style="list-style-type: none"> Describe the services being provided on a schoolwide basis Describe how services are directed toward meeting the district's goals for unduplicated students in the state priority areas
	NO	<ul style="list-style-type: none"> In addition to the two steps listed above, also... Describe how the services are the most effective use of funds to meet the district's goals for its unduplicated pupils in the state priority areas

Can a COE or charter school expend supplemental and concentration grant funds on a countywide or charterwide basis?	YES	<ul style="list-style-type: none"> Identify in the LCAP those services that are being provided on a countywide or charter-wide basis Describe in the LCAP how such services are directed towards meeting the COE or charter school's goals for its unduplicated pupils in the state priority areas
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Calculating the Minimum Proportionate Percentage (MPP)

The MPP includes three data sources: LCFF targets, prior year expenditures, and statewide implementation percentage (gap percentage). The LCFF Calculator, Version 15.1 (released February 12, 2014), includes this minimum proportionate percentage calculation.

For **Districts and Charters**:

- Estimate the total **2014-15 LCFF Funding** (Cell Q78 on the Calculator Tab of the LCFF Calculator), then
 1. Estimate the LCFF supplemental and concentration grant targets, at full implementation (Cell O16 + P16, on the Calculator Tab of the LCFF Calculator).
 2. Determine prior year expenditures to support unduplicated pupils. This amount shall be **no less than the amount of Economic Impact Aid (EIA) expended in 2012-13**.
 3. Subtract the estimated 2013-14 unduplicated pupil expenditures determined in Step 2 from the supplemental and concentration grant target determined in Step 1.
 4. Multiply the difference by the Department of Finance's gap percentage funding for the year in which the LCAP is adopted.
 5. Add to the LEA's prior year estimated unduplicated pupil expenditures from Step 2 to the amount calculated in Step 4.
 6. Subtract the amount in step 5 from the total **2014-15 LCFF funding**.
 7. Divide the amount from step 5 by the amount in step 6.
 8. If the amount in step 3 is less than or equal to zero, or when the LCFF is fully implemented statewide, then the proportion is calculated by dividing the total supplemental and concentration grants at target by the remainder of the LCFF funding, excluding add-ons for Targeted Instructional Improvement Grant (TIIG) and Home-to-School Transportation.

LCAP Requirements & Process Elements

The LCAP is a 3-year rolling plan that is updated annually.

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 LEA's budget.

For districts and charter schools, the LCAP shall include all pupils for which they are direct funded, including pupils served by another agency by agreement, contract or individual education plan (IEP), such as services provided under regionalized service plans within Special Education Local Plan Areas (SELPAs).

COEs and school districts may additionally coordinate and describe services provided to pupils funded by a school district but attending county-operated programs, including special education programs.

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

- Use of the SBE approved LCAP Template
- Meaningful engagement of parents, pupils, and other stakeholders, including the translation of documents according to Education Code section 48985.
- 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 of these Advisory Committees.
- Consultation with local bargaining units in developing the local control and accountability plan.
- Superintendent shall 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 shall review school plans for district schools to ensure they are consistent with strategies included in the LCAP.
- Include a listing and description of the expenditures for the fiscal year implementing the specific actions and the expenditures for the fiscal year that will serve unduplicated pupils and pupils redesignated as fluent English proficient.
- Align LCAP goals, actions and supporting expenditures to the annual budget.

Public Hearings

- 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. The LCAP and Budget public hearings must be held at the same meeting.

- The public hearing must take place in advance of and at a meeting separate from the Board meeting to adopt the LCAP and the district's annual budget (E.C. 42127 and 52062).

LCAP & Budget Adoption

- Adoption of the LCAP (and LCAP annual updates in subsequent years) shall be at the same meeting but prior to the adoption of the annual budget. (E.C. 42127 and 52062).
- Adopt a budget that includes expenditures necessary to implement the local control and accountability plan or the annual update to a LCAP that is effective during the subsequent fiscal year.

Not later than five days after adoption of a LCAP or annual update to a LCAP, the governing board of a school district shall file the LCAP or annual update to the LCAP with the county superintendent of schools.

LCAP Revisions

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.

Annual Updates

The annual update will be developed using a template provided by the State Board of Education (SBE) 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.
- Reference all fund sources used to support actions and services. Note that no changes to the California School Accounting Manual (CSAM) or Standardized Account Code Structure (SACS) coding are anticipated. LEAs may choose to utilize locally identified SACS coding if desired.

County Office Approval and Assistance

The County Superintendent shall approve a district's LCAP, provided the district has done all of the following:

1. The district adheres to the template adopted by the State Board of Education.
2. The budget includes expenditures sufficient to implement the specific actions and strategies included in the local control and accountability plan
3. The local control and accountability plan adheres to the expenditure requirements for funds apportioned for English Learners, Low Income and Foster Youth Students.

If a district's LCAP fails in any of the above areas, the County Superintendent shall provide technical assistance including:

- Identification of the school district's strengths and weaknesses in regards to the state priorities
- Assignment of an academic expert(s)
- Request the SPI to assign the California Collaborative for Educational Excellence (CCEE) to provide advice and assistance

Further, EC 42127(d)(1) states the county superintendent of schools shall disapprove a budget if the county superintendent of schools determines that the budget does not include the expenditures necessary to implement a LCAP or an annual update to the LCAP. However, if the sole reason for a budget being disapproved is the lack of an

approved LCAP or annual update, the requirement for formation of a budget review committee is waived.

California Collaborative for Educational Excellence (CCEE)

The CCEE will be comprised of a five-member governing board. This board will contract with a local education agency (or consortium) to operate as a fiscal agent of the collaborative. This fiscal agent will contract with individual LEAs or organizations with expertise and record of success to carry out the purposes of the LCAPs.

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.

Summary

Local Control Accountability Plans are intended to address the needs of all students by clearly defining the investments the LEA will make, and the actions it will take, to support student success. An effective LCAP process engages stakeholders, supports transparency and promotes accountability at the local level. Such a process will assist an LEA in preparing a performance based plan that addresses the local needs, aligned with local approaches and local conversations. The result is a local story that emphasizes a progression of continuously improving services to promote student success over the three years covered by the LCAP.

Guidance for Second Interim Reports

Situational Guidance to Districts and Multiyear Projections

The LCFF uniquely impacts each district and, consequently, budget guidance must be situational. Our office will contact each school district's chief business official to discuss situational guidance for the second interim report.

Key MYP Variables Under the LCFF:

- The LCFF is new and unfamiliar, which adds increased uncertainty in assessing risks.
- Each district will have a unique set of financial risk factors.
- There is a varying impact of projected state revenue increases from district to district.
- Districts must assess the impact of increased or improved services to EL, LI, and FY students.

Shift in Funding Creates a Shift in Managing Risks

Districts have typically managed economic risks largely through projections of revenues. Under the LCFF the most effective way to manage financial risks will be within the expenditure side of the budget. The following highlights are further described in detail below.

- The Administration's commitment to close the LCFF gap, as fortified by an improved economy and projected Proposition 98 growth creates high expectations to incorporate additional revenue into MYP budget.
- Effective economic risk management necessitates a shift to the management of risk onto the expenditure side of the budget - districts will need to carefully manage MYP expenditure commitments.
- New funding is not likely to be sufficient to meet competing demands for increased expenditures.
- The changing environment creates a greater need for contingency reserves.

Each district will have a unique set of financial risk factors. These risk factors are critically important in determining appropriate 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 B).

Since 2008-09, most district budget decisions have been driven by the fact that revenues were generally falling and districts were forced to react by cutting expenditures. Those districts that came into the recession with low reserve levels and or structural deficits experienced the greatest disruption to their educational programs. Going forward, districts will need to change the budgeting discussion to one focused on how to prioritize the use of new resources on expenditures most needed to meet the needs of all students, and especially the needs of students who are foster youth, low income, or English language learners.

Available information indicates with a high degree of certainty that most districts in the state will receive significantly more funding next year, and further revenue growth in 2015-16 also appears likely. It is also clear the new funding will not be sufficient to meet all the competing demands for increased expenditures. Funding for most districts will remain below 2007-08 levels. Districts will need to prioritize new expenditures based upon the LCAP while still maintaining fiscal flexibility and solvency.

Notwithstanding the improving revenue outlook, districts should be cautious about making ongoing expenditure commitments based upon projections unless they have the financial flexibility to maintain the core educational program, and fiscal solvency, even if those projections do not come to fruition. Financial flexibility can be achieved by having the ability to reduce expenditures quickly without doing significant harm, or by having reserves sufficient to absorb unanticipated changes.

Multiyear Projections

Districts are required by law to project revenues and expenditures for the budget year and the two subsequent fiscal years. In order to make multi-year projections districts rely on a variety of assumptions and sources of information available as of the point in time creating the projection.

The further into the future a projection is made, the greater the likelihood that the variables used to create the projection will deviate from assumed values. Subsequent year projections are predicated on trying to forecast variables that are entirely outside the control of the district, including the actions of current and future elected officials and the direction of the global, national and state economy. The implementation of LCFF has in some ways increased the uncertainty for districts due to the simple fact that it's new and unfamiliar, and it has a varying impact from district to district.

MYPs have always been challenging, but districts are faced with two key challenges related to MYPs in the current environment.

1. How does the district approach planning, budgeting, and MYPs in such an inherently unfamiliar environment?

2. How does the district approach planning, budgeting, and MYPs while complying with the requirements under LCFF and LCAP to make decisions in a transparent and locally inclusive manner?

Some possible approaches to answering these questions are listed below, and while the list is by no means comprehensive it does cover many common practices that districts have been implementing successfully for many years. These include:

- Gathering and documenting the best information available about all the known factors that will impact future revenues and expenditures
- Making reasonable, supportable, and conservative assumptions about how these factors will impact future revenues and expenditures
- Using the best tools available to model the impact of these assumptions on future ending fund balances and cash flows
- Assessing the district's ability to absorb unanticipated changes in future revenues or expenditures by modeling varying assumptions and scenarios
- Maintaining budget flexibility to allow for possible unanticipated changes by:
 - Maintaining adequate reserves
 - Building in room for contingencies in expenditure plans, including collective bargaining agreements if possible
 - *Not* using one-time resources for ongoing commitments
 - *Not* locking in ongoing spending commitments that the district can only afford in the future if projections play out exactly as predicted (or better)
- Clearly documenting assumptions
- Clearly communicating and explaining assumptions to stakeholders including the ability to respond in a reasoned, transparent, and logically justified manner if assumptions are challenged
- Making sure expenditure plans are aligned with the educational mission of the districts as delineated in the LCAP

Projecting Expenditures

Districts are well versed in the task of projecting known costs including personnel costs like step and column movement associated with existing bargaining agreements, and other well established costs and associated inflation trends such as utilities, insurance premiums, consumable materials, existing contracts for services, and non-voter approved

debt service, etc. The challenge comes in trying to estimate changes in expenditures that are likely and yet not known with certainty, and to build in flexibility for contingencies.

Risk factors districts would be wise to incorporate in MYPs under the ‘likely and not yet known with certainty’ category include:

- Costs associated with implementing locally established priorities as documented in the LCAP.
- Costs associated with providing increased or improved services associated with MPP requirements.
- Costs associated with meeting adequate progress towards class size requirements for the LCFF K-3 grade span adjustment (GSA).
- Costs associated with maintaining programs that were previously funded out of categorical funding and now must be funded out of unrestricted funds if they are to continue. Examples include instructional materials, career technical education (CTE), deferred maintenance, various professional development programs, additional instructional programs in support of gifted students, etc.
- Increases in PERS contribution rates - recent actuarial forecasts from CALPERS have projected employer contribution rates rising to as high as 20% for the schools pool by 2020. Districts can expect the CALPERS Board to make progress towards those projected rates in each of the next two years.
- Increases in STRS contribution rates - The Governor called for action to address the STRS unfunded liability in 2015-16. Subsequently the LAO recommended action in 2014-15, and the Speaker of the Assembly introduced legislation to that effect. At a minimum districts would be wise to build in projected rate increases for 2015-16.
- Increased administrative costs associated with the Affordable Care Act including staff time and possible penalty fines and taxes.
- Depending on district bargaining agreements and employment practices, possible increased costs associated with Affordable Care Act requirements to extend coverage to all “full-time equivalent” employees.
- Costs associated with implementing Common Core State Standards and SBAC.
- Requirements to increase Routine Restricted Maintenance back to the 3% minimum level in 2015-16.
- Long term maintenance costs and facility repairs.

- Costs associated with meeting maintenance of effort requirements and shifting cost structures for regionally provided programs under LCFF.

Factors districts may want to incorporate in MYPs under the “contingency” category include costs associated with possible legal claims, accidents or natural disasters, changes in the cost of borrowing for cash flow or other non-bond funded purposes, and a host of other possible local risk factors.

Projecting Revenues

There are several calculations that determine the amount a district will receive in a given year under the LCFF. The core components of this formula are the calculation of each district’s Floor, Minimum State Aid (commonly referred to as “hold harmless”), LCFF Target, and Economic Recovery Target (ERT), if eligible. Each calculation is separate and distinct and contributes to the determination of funding for each district. Some districts will receive no additional funding, while others are receiving substantial increases in funding.

The LCFF Calculator located on the FCMAT website is the tool recommended for calculating and assessing a district’s sensitivity to risk factors. This calculator provides input fields for modeling varying scenarios. 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 by calculating various scenarios.

The current DOF estimates for LCFF gap funding for 2013-14, 2014-15, 2015-16 and 2016-17 are as follows:

Year	2013-14	2014-15	2015-16	2016-17
Gap Funding	11.78%	28.05%	33.95%	21.67%

In forecasting state general fund revenues and the share attributable to Proposition 98, the Department of Finance (DOF) relies on conventional best practices for economic projections. They build sophisticated economic models based on the available data and make assumptions about future trends centered on historical experience and commonly accepted economic principles (e.g. mean reversion). The DOF’s models and projections, just like district MYPs, rely in part upon data that is largely outside the control of the administration, such as forecasts for the national and state economy. The DOFs projections for the portion of Proposition 98 that will be dedicated to LCFF implementation, and the resulting LCFF gap funding projections, are based on the administration's proposals and the Governor’s stated commitment to prioritize the implementation of LCFF.

Under the current administration, DOF projections have generally been conservative, and alternate forecasts from the LAO and other sources such as UCLA would seem to indicate that this continues to be the case.

Based on the information above, it would appear that DOF's projections for LCFF gap funding percentages are reasonable and supportable. Districts that use factors other than those provided by the DOF will need to be prepared to communicate and justify alternative projections to their communities in a transparent manner.

The 2014-15 gap percentage is based on the approximately \$4.5 billion for LCFF implementation included in the Governor's Budget Proposal. The LCFF Calculator is pre-loaded with the DOF gap factors. Districts can change the factors in the calculator to model alternate scenarios, however, it is important to be aware that changing assumptions about gap funding will drive changing assumptions about the Minimum Proportional Percentage and associated spending requirements. Additionally, changes to gap percentages will influence the calculations performed on the LCFF Calculator that set the threshold for making progress towards K-3, 24:1 Class Size. Ultimately, both the MPP and the calculation for making progress toward K-3, 24:1 Class Size will be the most recent gap percentage calculated by the Department of Finance for the fiscal year in which the LCAP is adopted.

Other key factors for LCFF revenue projections are dependent on the specific circumstances of a given district, including variations in base funding, minimum state aid, ADA trends, and unduplicated count percentages and trends. The information in the *Special Circumstances and LCFF* section (and subsections) address other LEA specific situations. In addition, the *Funding Outside of LCFF* section of this document (and subsections) contain guidance on projecting non-LCFF revenues.

A Note about the Shift from Revenue Limit to LCFF

Historically, projected COLAs and deficits were the standard for building MYPs. The application and significance of COLAs takes on new meaning under the LCFF. Under revenue limits, year-to-year funding changes were the result of ADA growth or decline and funded COLAs. In contrast, during implementation of the LCFF, year-to-year funding changes will be the result of ADA growth or decline, COLAs, unduplicated EL, LI and FY 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, LI and FY counts.

Reserves

The revised 2009-10 enacted budget lowered the minimum reserve requirements for economic uncertainties to one-third of the percentage levels 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 levels adopted by the State Board of Education prior to May 1, 2009.

Unfortunately, the experience of the past six years has clearly demonstrated that these minimum levels are not sufficient to protect educational programs from severe disruption in the event of an economic downturn. The typical 3% reserve minimum represents less than two weeks of payroll for most districts. Many LEAs have established reserve policies calling for higher than minimum reserves. The adequacy of a given reserve level should be assessed based on the LEA's own specific circumstances, but numerous reasonable models are available for consideration. Examples included:

- The Government Finance Officers Association recommends reserves equal to two months of average general fund operating expenditures, or about 17%.
- Rating agencies like Fitch or Moody's typically assess the adequacy of a district's reserves by comparing them to statewide averages, which have hovered around 15% for California unified schools districts in recent years.
- School Services of California recommends "one year's increment of planned revenue growth" above minimum legal requirements.
- FCMAT emphasizes the need to assess not only fund balance but also actual cash on hand.

There are multiple benefits to carrying higher than minimum reserves. These include:

- Financial flexibility to absorb unanticipated expenditures without significant disruption to educational programs
- Protection against exposure to significant one-time outlays such as disasters, lawsuits, or material audit findings
- Protection against the volatility of state revenues
- Protection against the volatility of property tax revenues for basic aid districts
- Cash management / avoiding the cost of borrowing for cash flow purposes
- Protection against declining enrollment

This is in no way an exhaustive list. Of all the reasons for carrying higher than minimum reserves, however, protecting against 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, by providing a buffer from volatile state revenues, maintaining higher than minimum reserves creates a more stable educational environment for students.

Negotiations

School districts are accustomed to periods of uncertainty, especially over the past five-plus years. However, the LCFF adds a new type of uncertainty. While the state is providing additional revenue for the first time in many years, its distribution is vastly different than it was under revenue limit funding. This, coupled with an uncertain economic recovery, creates an environment of caution for school districts considering a multiyear contract.

Districts need to exercise caution and maintain flexibility through contingency language that protects the district from cost increases and/or revenue shortfalls beyond their control.

Local Control Funding Formula

LCFF Overview

The LCFF is intended to provide a funding mechanism that is simple and transparent while allowing local educational agencies (LEAs) maximum flexibility in allocating resources to meet local needs. While the formula itself is relatively straightforward, the transition from revenue limit funding to the LCFF is very complex. The primary cause for this complexity is the state's commitment to ensuring all LEAs are funded at no less than they received in 2012-13 and that it will take eight years to fully fund the LCFF. This is simple in concept and initially complex in application. The following describes only the basic components of the formula and transition into the LCFF. The complexity of the transition funding is best captured in the LCFF Calculator located on the [FCMAT, Local Control Funding Formula Resources](http://www.cde.ca.gov/fg/aa/lc/) website. Additional information about LCFF can be found at <http://www.cde.ca.gov/fg/aa/lc/>.

The most distinct difference between revenue limit funding and the LCFF relates to the role and impact of COLA during the transition years. Under revenue limit funding, COLAs (and their deficits) played the central role in determining increases in year-over-year funding. Under the LCFF, COLAs are one step in the formula's calculation and have four driving factors:

- ADA - Similar to revenue limits, funding is calculated on ADA
- Annual COLA
 - Determined by the implicit price deflator as set in May for the budget year and estimated by the DOF for the two subsequent years for use in MYPs
 - Applied to Grade Level Base Grants, which then drives grade span adjustment and Supplemental and Concentration grant calculations

- DOF currently estimates 2014-15 COLA at 0.86%, 2015-16 COLA at 2.12% and the 2016-17 COLA at 2.3%
- Unduplicated Percentages - Certified with Fall 1 CALPADS data (applied to Supplemental and Concentration Grant calculations)
- Percentage of Gap Funding During Transition
 - Set by the DOF for the current year and estimated by the DOF for the two subsequent years for use in MYPs
 - Current year gap funding is 11.78%; estimated 2014-15 gap funding is 28.05%; estimated 2015-16 gap funding is 33.95%; estimated 2016-17 gap funding is 21.67%

New Funding Formula Introduces New Terminology

- **Minimum State Aid** - previously referred to as “hold harmless” funding as received in 2012-13
- **Floor** - Transition base funding
- **Transition Entitlement** - the amount an LEA will receive during transition
- **Base Grants** - Grade level base grants established for K-3, 4-6, 7-8, 9-12
- **Grade Span Adjustments (GSA)** - K-3 and 9-12 additional funding for class size and CTE
- **Base Grade Span** - Base grants plus GSA
- **Supplemental Grants** - Additional 20% of Base Grade Span for percentage of unduplicated students
- **Concentration Grants** - Additional 50% of Base Grade Span for percentage of unduplicated students above 55%
- **ERT** - Economic Recovery Target

Economic Recovery Target (ERT)

For some districts and charter schools, their per ADA 2012-13 undeficitated funding is higher than their LCFF per ADA entitlement at full funding. In these instances, districts and charter schools with undeficitated 2012-13 base revenue limit, general purpose and categorical funding per ADA that is equal to or below the 90th percentile of LCFF per pupil funding when fully funded (estimated at approximately \$14,500), and that exceeds their uniquely computed LCFF entitlements at full implementation, will be restored to

their undeficitated 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 undeficitated funding, multiplied by 2013-14 COLA of 1.57%, 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 one-eighth in 2013-14, increasing by one-eighth annually until the full payment becomes a permanent add-on, starting in 2020-21. This calculation is built into the 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 for 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 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 relies on 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 11.78% of the gap in 2013-14. The Governor's 2014-15 budget proposal provides an additional \$4.5 billion for LCFF implementation, which would be sufficient to fund an estimated 28.05% of the remaining gap.

Further, the Governor's 2014-15 budget proposal includes continuous appropriation language intended to provide further funding certainty for the LCFF to ensure the formula continues to be implemented in future years.

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.

Treatment of ADA under the LCFF

While many of the elements used to calculate ADA remain unchanged under the LCFF, the basic calculation of the target grant begins with a measurement of ADA by grade span.

For all districts, and especially declining enrollment districts, begin with the ADA by grade span for the prior year. The LCFF Calculator has been constructed to allow ADA entry by grade span **or** as ungraded for each type of ADA currently reported as ungraded.

Enter ADA. Calculator will use greater of current or prior year ADA.								
Enter Regular ADA by grade span. Enter 'Ungraded' ADA EITHER by grade span OR on the Ungraded rows								
ADA	ADA to use:	2012-13	2013-14	2014-15	2015-16			
Grades K-3	P-2 (Annual for SDC ext. year)					}	District ADA funded on better of current or prior year	
Grades 4-6								
Grades 7-8								
Grades 9-1								
Ungraded (enter here OR in spans above)								
NPS, NPS-LCI, CDS:								
K-3	Annual					}	District ADA funded on current year Annual	
4-6								
7-8								
9-12								
Ungraded (enter here OR in spans above)								
COE operated (Community School, Special Ed):								
K-3	P-2 / Annual					}	COE operations funded on current year	
4-6								
7-8								
9-12								
Ungraded (enter here OR in spans above)								

Under current language of the LCFF, non-mandatory ADA served in county operated programs are reported as district ADA. Under the revenue limit, any such ADA was included in the district's total ADA to calculate the revenue limit apportionment. The resulting apportionment was then transferred to the COE. Under the LCFF, apportionments generated by county operated ADA remains with the district. The CDE is working with the DOF in an effort to provide an option to follow the prior practice of state level revenue transfers for this apportionment. There is, however, no process for this in 2013-14. For comparative purposes, the LCFF Calculator allows exclusion of county operated ADA to provide a closer estimate of funding that replicates the previous apportionment transfer practice.

CALCULATE LCFF TARGET						
Unduplicated as % of Enrollment		X.XX%			COLA	1.57%
		Base Grade Span (BGS)				2013/14
		Base Grant	GSA	Supp	Concen	TARGET
Grades K-3	ADA	6,952	723	20% of BGS X Undup %	50% of BGS X Undup % > 55%	ADA X (BGS + Supp + Con)
Grades 4-6	ADA	7,056				
Grades 7-8	ADA	7,266				
Grades 9-12	ADA	8,419	219			
TOTALS	Total ADA	Total, ADA X Base	Total, ADA X GSA	Total, ADA X (BGS + Supp)	Total, ADA X (BGS + Con)	Total Base
Targeted Instructional Improvement						Add-on
Transportation						Add-on
LOCAL CONTROL FUNDING FORMULA (LCFF) TARGET						Total Target

LCFF Calculator

The LCFF Calculator has been developed in consultation with the California Department of Education (CDE), the Department of Finance (DOF), and the State Board of Education to ensure the calculator accurately reflects the LCFF legislation.

The most recent version of the LCFF Calculator has been posted to the FCMAT website at www.fcmat.org. Version V.15.1 of the Calculator incorporates proposed legislation from the LCFF Technical cleanup trailer bill and reflects the most recent thinking of the FCMAT, the county superintendents' external services subcommittee working group, the DOF, the CDE and the SBE related to creating revenue estimates, multiyear financial projections and estimating minimum proportionality percentages.

The following statement can be found on the FCMAT website:

While the state transitions to the Local Control Funding Formula, it is likely that there will be additional changes in policy and in the fiscal application of the law that will affect the function of the Calculator. This, in turn, will impact budget development and fiscal projections at district and charter schools. As those changes become available, FCMAT will revise the Calculator and provide the field with update notification using the new LCFF Listserve.

The LCFF Calculator link on FCMAT’s Local Control Funding Formula Resources web page ([http://www.fcmat.org/stories/storyReader\\$23157](http://www.fcmat.org/stories/storyReader$23157)) provides access to the latest LCFF Calculator, V15.1. The Calculator Caveats link provides access to “Calculator Caveats”, an attempt to identify known issues, assumptions and unique situations that are common to the current version of the LCFF Calculator, which has been updated to reflect current conditions. Please consider the information contained in this document when utilizing the LCFF Calculator. The LCFF Calculator is designed to do the heavy lifting of calculating the LCFF and includes a series of arrays and lookup formulas, specific to each LEA. Because of this, the LCFF Calculator is password protected to protect the data from inadvertent formula errors.

The LCFF Calculator is designed to calculate the LCFF for 2013-14, 2014-15, 2015-16 and 2016-17. The calculator continues to accommodate all types of districts, including basic aid districts and charter schools. Further, it 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 Grade Span Adjustment, ERT payments and graphical demonstrations of multiyear funding. The calculator also incorporates the minimum state aid calculations of the LCFF.

Version 15.1 of the LCFF Calculator incorporates the following major changes:

	2013-14	2014-15	2015-16	2016-17
Annual COLA <i>(prefilled as calculated by the Department of Finance, DOF)</i>	1.57%	0.86%	2.12%	2.30%
LCFF Gap Closed Percentage <i>(prefilled as calculated by the Department of Finance, DOF)</i>	11.78%	28.05%	33.95%	21.67%

- Updated with assumptions from the Governor’s Budget Proposal:
 - Revised 2014-15 Minimum State Aid (MSA) calculation effective 2014-15 for Charter Schools per proposed E.C.47635(a)(4)
 - New entry in the Categorical section on the 2012-13 Awards tab for Agriculture Vocational Education and Specialized Secondary Education programs, effective 2014-15.
 - Added E.C. reference for cleanup on the fair share calculation included in version 14.4 for districts that received one-time residual RDA assets in 2012-13 effective in 2014-15
 - Added E.C. reference for cleanup of the ERT calculation included in version 14.4
- Adds calculations for 2016-17 for 2014-15 Budget Adoption multi-year projections
- Clarified Minimum State Aid Funding per ADA calculation for School Districts

- Incorporated the necessary elements to properly calculate the LCFF for districts that received Charter Block Grant Offset funding in 2012-13
- Adds an LCAP MP% tab to assist you in determining the Minimum Proportionality Percentage – the percentage by which your district or charter school will increase expenditures or improve services for the pupils generating supplemental and concentration grants.
- Adds a Summary tab to help you easily identify the LCFF Target grant, LCFF Entitlement grant, the sources that make up the Entitlement by object code to assist in budgeting, and a summary of the Minimum Proportionality Percentage and associated supplemental and concentration grants.
- Adds an Assumptions tab to provide all basic assumptions in one easily identifiable and printable place. Formulas throughout the workbook have been updated to refer back to the assumptions tab.
- Adds two new unprotected ‘Local’ tabs to allow the user to pull data from elsewhere in the workbook to build their own analysis and summary tools.
- Added the ability to enter a title on the Instructions tab that flows through to the other tabs.

Cost of Living Adjustments

During the transition to full LCFF implementation, COLA is not the key determinant of increases in funding. The difference between a district’s starting point, its LCFF target (gap) and the state’s LCFF gap percentage funding are the drivers of funding for all districts until full implementation.

Under the LCFF, the 2013-14 COLA of 1.57% is applied to the entitlement targets. Districts are funded at 11.78% of the difference between 2012-13 revenues and the target amounts. The FCMAT LCFF Calculator will yield specific projected dollars and percentage funding increases for individual districts and charter schools.

Districts whose current funding exceeds their LCFF target amount (hold harmless/minimum state aid) will not receive an increase attributed to the COLA percentage. Annual COLAs are applied to LCFF target amounts. Once the LCFF is fully funded, the base LCFF amounts will receive annual COLA increases.

The DOF estimates the 2014-15 COLA as 0.86%, the 2015-16 COLA as 2.12%, and the 2016-17 COLA as 2.3%. The Situational Guidance and Multiyear Projection section also discusses potential COLAs in the subsequent years and their impact.

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 is subject to the regulations adopted by the State Board of Education at its January 16, 2014 meeting. See the *LCAP / Supplemental and Concentration Regulations* section for more details.

The Superintendent of Public Instruction will annually compute the percentage of unduplicated count using the criteria above and utilizing data reported through the 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 (see Audit Requirements section for details).

The unduplicated pupil count percentage is computed as follows:

1. For the 2013-14 fiscal year, divide the sum of unduplicated pupils for the 2013-14 fiscal year by the sum of the total pupil enrollment for the 2013-14 fiscal year.
2. For the 2014-15 fiscal year, divide the sum of unduplicated pupils for the 2013-14 and 2014-15 fiscal years by the sum of the total pupil enrollment for the 2013-14 and 2014-15 fiscal years.
3. For the 2015-16 fiscal year and each fiscal year thereafter, divide the sum of unduplicated pupils for the current fiscal year and the two prior fiscal years by the sum of the total pupil enrollment for the current fiscal year 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 only 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. For a charter school physically located in more than one school district, the charter school'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% of the school districts in which the charter school has a school facility.

Minimum State Aid (Hold Harmless)

Per the LCFF, LEAs 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.

Total minimum state aid is a combination of the following funding sources:

- All revenue limits received in 2012-13 adjusted for ADA and current year property taxes (including in-lieu taxes).
- All 2012-13 state categorical funding for the categorical programs are now included in the LCFF. Beginning in 2014-15, the Governor's Budget proposal adds categorical funding for Specialized Secondary Education and Agriculture Vocational Education to the categorical programs included in the LCFF.
 - See Appendix A for full list of categorical programs included in the calculation.
 - The LCFF calculator has a detailed tab dedicated to categorical funding sources called 2012-13 Awards, which includes prefilled data direct from CDE sources.
- For basic aid districts, categorical programs are subject to an 8.92% fair share reduction, calculated on the 2012-13 revenue limit entitlement.

Per the 2014-15 budget proposal, the Basic Aid fair share calculation is to be adjusted in 2014-15 for one-time receipt of liquid asset recovery revenue received in 2012-13 due to the dissolution of redevelopment agencies. More information on this topic can be found in the Basic Aid section of the Common Message.

- For charter schools, all charter general purpose block grant, categorical block grant, supplemental categorical block grant, and in-lieu property tax funds received in 2012-13, divided by 2012-13 ADA, multiplied by current ADA.
- Per the Governor's 2014-15 budget proposal, if a charter school's total in lieu, plus Minimum State Aid (MSA) is greater than its LCFF entitlement, the MSA will be offset by the excess amount.

Hold harmless minimum state aid provisions specific to certain programs/funding types have been enacted per the LCFF. Greater detail of these programs and how they are affected by the minimum state aid provisions can be found in the sections of this message that are dedicated to the program/funding type (e.g., Pupil Transportation and ROC/P).

Also, the LCFF Calculator provides a section on the “calculator” tab reflecting the minimum state aid calculations.

K-3 Grade Span 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, 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.

LCFF Calculator

As a means of managing this risk, LEAs may choose to utilize the LCFF Calculator to help determine if adequate progress is made toward the ratio of 24:1 for each school site. By 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 above referenced number 1 and/or number 2 above are exempt from the requirements of number 3. However, school districts must maintain class enrollment per school site of not more than 24 unless collectively bargained.

The K-3 GSA is a conditional apportionment dependent on the district making adequate progress at all school sites toward a class size of 24:1. The class size tab in the calculator has been designed to remove the K-3 GSA if a district fails to make adequate progress. Districts also have the option to collectively bargain an alternate ratio, in which case they must meet this ratio. There are no criteria to allow a district to make progress toward its collectively bargained ratio, and the class size tab of the calculator would not be applicable. In addition, the condition of apportionment does not apply to charter schools; therefore, there is no need to use the class size tab for charter school calculations.

Method for Making “Progress Toward”

Districts that do not meet number 1 and/or number 2 above will 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. Determine each school site's 2012-13 average class enrollment for grades K-3.
2. Subtract the target average class enrollment of 24 from the averages determined in Step 1 above to determine the difference at each school site.
3. Multiply the difference calculated in Step 2 by the gap percentage for that year to determine the amount class size should be reduced (adequate progress). **The LCFF Calculator Class Size Tab allows the user to override the percentage to conduct a sensitivity analysis for the out years.**
4. Subtract the adequate progress in Step 3 from the prior year's average class size. This provides the maximum class size necessary to meet the K-3 GSA condition of apportionment.

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. 2012-13 class size (30) minus target class size (24) = 6
2. Adjustment that must be made to 2013-14 class sizes to receive funding - $6 \times 11.78\% = .70$
3. Class size ratio necessary to receive funding in 2013-14 = $30 - 0.7 = 29.3$

Note that the calculation will be re-benched each year, so a district that makes **more than** adequate progress will not get credit for that progress in the subsequent year (e.g., the district in the example above goes to a 28:1 ratio in 2013-14). Class sizes for grades K-3, as established by this section, are no longer subject to waiver by the State Board of Education pursuant to Section 33050 or by the Superintendent of Public Instruction.

Beginning in 2014-15, 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. However, it is important for districts to be aware that until the LCFF is fully funded, failure to meet the requirements in one year will negatively impact future year funding because it will lower a district's prior year base funding for the purpose of LCFF gap calculations.

For the 2013-14, procedures for determining whether the district meets the new requirements will be included in the state audit guidelines. For 2013-14 the audit procedure will not have financial consequences. See the Audit Requirements section for details.

Targeted Instructional Improvement Grant; Home-to-School Transportation

The enacted budget maintained the Targeted Instructional Improvement Grant (TIIG) and Home-to-School Transportation as permanent add-ons to LCFF Target entitlements.

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 in the form of a hold harmless. The funds will be treated as a permanent add-on under the LCFF. The July budget trailer bill clarifies that small school district transportation is included in the transportation add-on.

The use of the funds was intended to be flexible for any educational purpose. However, the budget contains transportation maintenance of effort language [see Education Code 2575(k)(1) and Education Code 42238.03(a)(6)(B)]. Of the funds received for home-to-school transportation, a school district is required to expend no less than the amount of funds the school district expended for home-to-school transportation in the 2012-13 fiscal year or the amount of revenue received in 2013-14, whichever is less. The MOE requirement only applies to spending up to the amount of the transportation entitlement received in 2012-13; contributions to transportation programs above the amount of the entitlement are not subject to MOE. 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 separate MOE requirements related to transportation JPAs, 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. It is imperative for districts to develop or refine their system for accurately gathering, reporting, and certifying data in CALPADS. Districts should print the CALPADS report and compare it to the FRPM and EL counts reported in their 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.

In Flash #83, the CDE noted that data from the CALPADS certification report will be used as the basis for the supplemental and concentration funding at the 2013-14 Second Principal Apportionment on or before July 2, 2014. The CDE will make adjustments to the district unduplicated pupil count for disadvantaged students that are attending a COE operated program and students identified through a statewide foster youth match of records from the California Department of Social Services.

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.

On October 25, the CDE released five sample alternative forms that can be accessed on their website. Links and descriptions of the forms are provided in the Provision 2 & 3 section below.

Audit guidelines have been developed for inclusion in the 2013-14 Supplemental Audit Guide and were approved by Education Audit Appeals Panel on January 27, 2014. The procedures are intended to verify the unduplicated pupil counts - see the *Audit Requirements* section of this document for details. LCFF does not require that LEAs be audited on the income verification process used to determine eligibility, but it does require that annual audits verify that CALPADS counts are consistent with pupil records.

Fall 1 Late Correction Window

Because of the increased importance of the CALPADS date this year, on February 10, 2014 CDE issued a letter offering LEAs the opportunity to use a late correction window for the Fall 1 Certification on request.

“Between February 14 and March 21 LEAs (including those with Provision 2 or 3 schools) **that opt to use the late correction window must submit a service request to the CALPADS Service Desk in order for the snapshot reports to be enabled.** In the service request, please indicate why additional time is needed, and provide an estimate for when the LEA plans to recertify. LEAs that have already submitted an extension request do not need to send in another. LEAs must recertify their Fall 1 submission no later than **March 21, 2014.**”

County Operated Enrollment

Students served in county programs who are otherwise funded through their district of residence under the LCFF will ultimately be assigned by the COE to the appropriate

district of residence. Currently there is no mechanism for COEs to report these students by district of residence within CALPADS, but it is expected for 2014-15. Consequently, for the 2013-14 year, COEs will manually report this data through the Principal Apportionment Data collection software as part of the P-2 data collection. (See the County Office of Education Revenue Transfers section for further details on this issue).

Juvenile court schools are no longer required to submit FRPM student records. This decision was made because all juvenile court school students are funded as “disadvantaged students” under LCFF, and because most of these students are not continuously enrolled. All other county office school types are still required to submit FRPM eligibility records.

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 CALPADS submissions, how data reported to CALPADS are used to meet state and federal requirements, and the consequences for failure to certify by the deadline (see Appendix E).

CALPADS now includes Education Program Code 185 to capture transitional kindergarten participation, which is required to be reported beginning in 2013-14.

New federal verification reporting requirements necessitate identifying students that are directly certified as eligible for FRLP through the SNAP and TANF programs. This requires coordination with the Department of Health Care Services and California Department of Social Services to expand the reporting protocols. A table in Flash #76 fully explains the expanded CALPADS codes.

Difference in Socioeconomically Disadvantaged Definitions

On May 10, 2013, the CDE provided information on the difference in socioeconomically disadvantaged definitions through [CALPADS Update Flash 74](#). The 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 an 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 an FRPM program record.

Provision 2 and 3 Schools

LEAs that process FRPM or alternative forms after census day in October, but before the end of CALPADS Fall 1, may update CALPADS with these records with an effective

date of the student's enrollment date for that school year. *CALPADS will only include students enrolled on Fall 1 census day in the FRPM counts.*

Schools with a National School Lunch Program (NSLP) Provision 2 or 3 status are prohibited from collecting FRPM applications for individual students. 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 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.

Audit guidelines intended to verify unduplicated pupil counts were adopted by EAAP on January 27, 2014. See the *Audit Requirements* section of this document for details.

California School Information Services (CSIS) developed a sample alternative form that is available at <http://csis.fcmat.org/Pages/Tools-Samples-Links.aspx>.

On October 25th, the CDE released sample alternative forms that school districts can use to collect income eligibility for LCFF.

[Sample 1](#): This form collects information for multiple children in a household. Parents/guardians would calculate their annual income and select among income ranges.

[Sample 2](#): This form collects information for multiple children in a household. Parents/guardians would list their income sources and amounts. The school would determine whether the income falls within specified ranges.

[Sample 3](#): This form collects information for multiple children in a household. Parents/guardians would select among income ranges, which are presented for various frequencies of payment (weekly, monthly, yearly, etc.).

[Sample 4:](#) This form collects information for one child. Parents/guardians would provide their total income and household size. The school would determine whether the income falls within specified ranges.

[Sample 5:](#) This form collects information for multiple children in a household. Parents/guardians would list their income sources and amounts. The school would determine whether the income falls within specified ranges. The form includes other information that the school may wish to collect, such as eligibility for benefits under various federal programs.

Special Circumstances and the LCFF

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. 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. SB 97 clarified that school districts and county offices of education will satisfy the maintenance of effort requirement if they collectively maintain Adult Education countywide.

The 2013-14 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. For more information on the implementation of the planning grants and consortia see <http://ab86.cccco.edu/Home.aspx>.

In his 2014-15 budget proposal, the Governor signaled his intent to create a new adult education categorical program in 2015-16:

“Adult education consortia plans will be completed by early 2015, and the Administration intends to make an investment in the 2015-16 budget for adult education, including adult education provided in county jails, through a single restricted categorical program. The Administration will continue to work jointly with the State Department of Education and the California Community Colleges Chancellor's Office to complete the adult education consortia plans, while working with the Legislature to ensure that any legislation pertaining to adult education aligns

with and supports the planning process currently underway, and provides consistent guidance to the K-12 and community college districts.”

Basic Aid

Under the LCFF, the determination of a basic aid district is made exclusive of funds received through the Education Protection Account (EPA) and further excludes revenues received through the LCFF hold harmless calculation, including previously received categorical funds.

A basic aid district is defined as a district that does not receive state aid to fund the floor entitlement for transition to the LCFF or any portion of the LCFF at full implementation.

Basic aid districts will receive minimum state aid (MSA) funding (Hold Harmless) of no less than the amount received in 2012-13. The MSA 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. Due to the dissolution of RDAs, many districts experienced an increase in their fair share reduction as a result of the increase in property taxes. Trailer bill language released by the Department of Finance on January 31, 2014 will correct this in the 2014-15 year by removing one-time redevelopment agency liquid asset recovery revenue from the fair share calculation.

Each basic aid district is uniquely funded. Some are only in basic aid status because the LCFF is not yet fully funded, while others are and will remain basic aid under full implementation of LCFF. Also, basic aid districts receive varying levels of categorical funds, as reduced by the fair share calculation.

Through the minimum state aid 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%.

Basic aid districts will be subject to the Local Control and Accountability Plan (LCAP) and Supplemental and Concentration Grant regulations under LCFF. See the Local Control Accountability Plans and Supplemental and Concentration Grants sections for guidance.

Miscellaneous Basic Aid Revenues

- Minimum guarantee of \$120 per ADA (remains unchanged).
- EPA \$200 per ADA ongoing funding is dependent on basic aid status, until EPA’s temporary taxes expire (see EPA section), and is in addition to the \$120 basic aid guarantee.
- District of Choice credit is at 70% of district of residence LCFF base grants transitional or funded amount until full implementation (excluding

supplemental and concentration grants). Education Code Section 48310 becomes inoperative on July 1, 2016.

- Charter School Basic Aid Supplement is at 70% of district of residence LCFF base grants transitional or funded amount until full implementation (excluding supplemental and concentration grants).
- Court-ordered is at 70% of district of residence LCFF base grants transitional or funded amount until full implementation (excluding supplemental and concentration grants). These students will be included in the receiving district's unduplicated pupil count. Districts that are in Basic Aid status should report these students as court-ordered to receive the 70% of the funding. Once a district transitions to LCFF funding, these students should be reported as district students.

Education Protection Account (EPA)

Consistent with the current provisions of the EPA, all districts are guaranteed a minimum of \$200 per ADA beginning in 2012-13 and each year thereafter through 2018-19. For state funded districts, EPA is an offset to state aid. Because basic aid districts do not receive state aid, they receive this minimum EPA funding of \$200 per ADA as additional revenue.

Through the implementation of the LCFF, basic aid districts that lose their basic aid status may receive a proportionate offset to the \$200 per ADA minimum in EPA funding as state aid revenues grow. The LCFF Calculator includes this offset calculation. During the period when a basic aid district transitions from basic aid to state funded, however, the additional EPA minimum revenue should not be budgeted until this calculation is fully vetted with the CDE.

Cash and Reserves for Basic Aid Districts

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 under revenue limit may convert to being state funded through the LCFF. Districts are advised to be cautious in planning for this possibility. Cash flow will be seriously affected for districts transitioning out of basic aid status. For 2013-14, the CDE is providing apportionments based on the funding status of the district in 2012-13. Although this is problematic in "normal" years, it will have a longer cash flow impact in 2013-14. This could mean a district will be treated as a basic aid district by the CDE and an LCFF district by its county controller. All basic aid districts are advised to work closely with our office in projecting their current and future basic aid status.

Charter Schools

LCFF for charters continues to 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. Furthermore, under the current emergency regulations, LCAP requirements for charter schools differ from the requirements specified for school districts.

Funding

Similar to school districts, charters will receive a base rate for each of the four grade spans, and add-on funding for the K-3 GSA for class size reduction (10.4%) and 9-12 GSA for Career Technical Education (2.6%). However, charter schools are not subject to the 24:1 K-3 class size requirement as a condition of apportionment.

Charters will also receive supplemental and concentration grants based on their unduplicated pupil counts (see Supplemental and Concentration Grants section and CALPADS section for more information), but a charter school's concentration grant percentage will be limited to the percentage associated with the school district where the charter school physically resides. If the charter school is physically located in more than one school district, then the charter's percentage cannot exceed that of the school district with the highest percentage. Other aspects of charter school funding remain unchanged in the Governor's 2014-15 Proposed Budget, including in-lieu property tax transfers, and the use of current year ADA, even in the case of declining enrollment.

Section 15496 of the LCFF regulations require both charter schools and school districts to calculate the proportion of funds that must be dedicated to increasing or improving services for those high need pupils who generated supplemental and concentration grants under LCFF. Charter school requirements on the use of targeted funds are contained in regulation Section 15496(b)(5), and the requirements for districts are found in Section 15496(b)(1-4). Charter schools tend to operate at the school level, and therefore, the requirements for charters to use weighted funds are specific to the school level.

- Section 15496(a)(2) of the regulations requires charter schools and districts to establish the prior levels of resources committed to serving high need pupils as the base from which to track increased efforts.
- The minimum level of resources allowed as the starting point is funding received for Economic Impact Aid (EIA) in 2012-13.
- Under the prior block grant system (EC 47634.1), charter schools received funds in lieu of EIA in a general purposed block grant that could be used "for any educational purpose." Regardless, annual progress toward proportional resources to targeted pupils will still be calculated under the formula in the SBE regulation for charter schools that will result in incremental increases.

LCAP for Charter Schools

The Governor's 2014-15 Proposed Budget requires charters to abide by some of the elements as required in the district's Local Control and Accountability Plans (LCAP), but not all. Charter schools will be required to develop an LCAP focusing on the eight key state priority areas that apply for the grade levels served at the charter, or the nature of the program operated. The charter school must also consult with its school community in developing and annually revising its LCAP. However, LCAP requirements for charter schools are contained in different sections of the current emergency regulations than the regulations for school districts.

Specifically, pursuant to EC Section 47605, 47605.5, and 47606.5, charters must describe goals and specific actions to achieve those goals for all students and each subgroup of pupils identified in EC 52052, including students with disabilities, for each of the state priorities as applicable and any locally identified priorities. The inclusion and description of goals for state priorities in the LCAP may be modified to meet the grade levels served and the nature of the programs provided, including modifications to reflect only the statutory requirements explicitly applicable to charter schools in the Education Code.

The LCAP must be reviewed and revised annually by the charter's governing body and submitted to its authorizer.

COE Revenue Transfers

Traditionally, revenue limit for students in county-operated special day classes and community schools had been transferred to COEs based on the revenue limit of the student's district of residence. However, under the LCFF, these funds instead flow to the student's district of residence, requiring a manual transfer to the COE at the local level. The funding will be accounted for as part of a district's funding under the LCFF.

For students that are mandatorily expelled, probation-referred, on probation or parole, or incarcerated and served by the county office of education, 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. To calculate the percentage of unduplicated students for supplemental and concentration grants per Education Code Section 42238.02, the CALPADS data collection process will need to be updated so the enrollment of these students can be attributed to the school district of residence.

LCFF provides that if a district enrolls its students in a COE program, the district will need to transfer the revenue for those students to the COE. Previously this was done by the CDE. The CDE is working with the DOF in an effort to provide a process for such a transfer at the state level. Currently, there is no statutory authority for the CDE to continue to transfer the funding at this time. Therefore, the CDE will not facilitate these transfers under the LCFF for the 2013-14 year.

For the 2013-14 advance apportionment, which is based on the prior year, funding for county office funds transfers is equal to 2012-13 P-2 amounts. Because the changes for LCFF apportionments have not yet been made, the advance apportionment maintains the

cash flow status quo (transferring the funds to COEs and reducing district apportionments). The adjustment of cash flow will not be made until the apportionment calculated with LCFF funding is certified, at the Second Principal Apportionment in July 2014. This impacts various programs operated by the COE: Special Day Class, Opportunity and Community “A” & “B” students, etc. A communication letter from the CDE is anticipated by the end of February to clarify this change in revenue transfers of funding and the impact to LEAs’ cash flow.

Independent Study

Increasing Instructional Flexibility – Independent Study

The Governor’s Budget proposes the addition of two new instructional options to increase instructional flexibility: *Grades 9 through 12 Course-Based Independent Study* and *School Site-Based Blended Learning*. These new options are governed by a new learning agreement in place of the written agreement required for current independent study. If the Governor’s Budget is adopted as written, districts potentially will be able to offer up to three different independent study options: ongoing Independent Study under modified current law, the proposed Course-Based Independent Study for grades 9-12 and the proposed School Site-Based Blended Learning for grades K-12.

The Governor’s Budget also proposes to increase flexibility in the current Independent Study instructional setting by amending EC 51747.5 with a subdivision stating that pupil work products do not have to be signed and dated when assessing the time value of the pupil’s work. The following chart highlights the differences between the three settings:

Traditional Independent Study	Grades 9-12 Independent Study	School Site-Based Blended Learning
<i>For grades K-12</i>	For grades 9-12	For grades K-12
Independent study	Course by Course Independent Study	School site-based blended learning courses
Instruction occurs anywhere	Instruction occurs anywhere	Instruction on physical school site
Board policies follow applicable statute including, but not limited to, EC 51745 through 51749.3	Board policies follow EC 51749.5 through 51749.7	Board policies follow EC 51749.5 through 51749.7
Written Agreement per 51747	Learning Agreement per 51749.7	Learning Agreement per 51749.7
Not valid for any period longer than one semester, or one-half year for year-round school.	Shall not exceed a school year or cross over multiple school years.	Shall not exceed a school year or cross over multiple school years.
Must specify manner, time and frequency of student contact	Pupil and teacher shall communicate in-person, telephone or any other live visual and/or audio connection at least	Pupil and teacher shall communicate in-person, telephone or any other live visual and/or audio connection at least once per

	once per week.	week.
Evaluation of whether or not the pupil should be allowed to continue in independent study is triggered by number of missed assignments	Evaluation of whether or not the pupil should be allowed to continue in independent study is triggered when the pupil does not make satisfactory educational progress	Evaluation of whether or not the pupil should be allowed to continue in independent study is triggered when the pupil does not make satisfactory educational progress
Teachers must be appropriately credentialed employees	Teachers must be appropriately credentialed AND meet the federal definition of highly qualified teachers	Teachers must be appropriately credentialed AND meet the federal definition of highly qualified teachers
<i>Proposal: Pupil-to-certificated employee ratios shall be applied by grade span and may be collectively bargained to an alternative ratio.</i>	Pupil-to-certificated employee ratios shall be applied by grade span and may be collectively bargained to an alternative ratio.	Pupil-to-certificated employee ratios shall be applied by grade span and may be collectively bargained to an alternative ratio.
Must ensure same access to all existing services and resources as is available to all other pupils	Board must annually certify rigor and educational quality of the program is equivalent to classroom based instruction	Board must annually certify rigor and educational quality of the program is equivalent to classroom based instruction

Traditional Independent Study	Grades 9-12 Independent Study	School Site-Based Blended Learning
Supervising teacher assigns time value to pupil work products. Samples of pupil work to be retained in file. <i>(Proposal eliminates need for teacher to sign and date work)</i>	Evidence of satisfactory educational progress shall include a grade book or summary that, for each course, lists all assignments, exams, and associated grades	Evidence of satisfactory educational progress shall include a grade book or summary that, for each course, lists all assignments, exams, and associated grades
	May be combined with other authorized instructional options to meet minimum instructional minutes per day and per year and for purposes of computing average daily attendance.	May be combined with other authorized instructional settings to meet minimum instructional minutes per day and per year and for purposes of computing average daily attendance.

Regional Occupational Programs/ Career Technical Education

The enacted budget includes ROC/P as part of the LCFF base for districts and county offices that received the Tier III funding directly from the state. However, the budget included maintenance of effort requirements stating 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 [...] in the 2012-13 fiscal year.”

The LCFF cleanup bill, SB 97, clarified that school districts and county offices of education will satisfy the MOE requirement if they collectively maintain ROC/P spending countywide, including CTE expenditures. Specifically the bill states, “a school district may include expenditures made by its county office of education within the school district [and vice versa for COEs] for purposes of regional occupational centers or programs so long as the total amount of expenditures by the school district and the county office of education equal or exceed the total amount required to be expended for purposes of regional occupational centers or programs” ... pursuant to Section 2575(k)(3) (COE requirement) and Section 42238.03(a)(7) (district requirement).

SB 97 also maintains and clarifies the separate MOE requirements related to ROC/P JPAs.

While the original LCFF proposal 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 be a required element of Local Control and Accountability Plans. SB 97 clarified that LCAPs should include goals related to the percentage of pupils that complete “career technical education sequences or programs of study that align with state board-approved career technical educational standards and frameworks.”

Another significant CTE related provision of the enacted budget is the inclusion of \$250 million in one-time funding for Career Technical Education Pathway Grants to be competitively awarded for work-based learning programs. The Request for Applications (RFA) for these funds was released on January 21, 2014, and applications are due March 28, 2014. See <http://www.cde.ca.gov/fg/fo/r17/ccpt14rfa.asp> for details.

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.

The CDE anticipates calculating LEA funding using the new LCFF formula in the 2013-14 P-2 apportionment, which will be certified on or before July 2, 2014.

Cash Management

At their peak in 2011-12, K-12 deferrals totaled \$9.4 billion. For 2013-14, cross fiscal year deferrals totaled \$5.6 billion. The Governor's 2014-15 Budget proposes to eliminate the remaining \$5.6 billion in cross fiscal year deferrals.

Education Protection Account (EPA)

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. EPA will be apportioned quarterly in September, December, March, and June. EPA entitlement and apportionment details may be accessed at:

<http://www.cde.ca.gov/fg/aa/pa/epa1314.asp>. LEAs may also find more information about EPA on the CDE's frequently asked questions webpage: <http://www.cde.ca.gov/fg/aa/pa/pafaq.asp>.

Although the LCFF is effective beginning in 2013-14, EPA entitlements will continue to be calculated on the revenue limit formula.

Cross Fiscal Year Principal Apportionment Deferrals

K-12 principal apportionment cross fiscal year deferrals have declined from \$7.4 billion in 2012-13 to \$5.6 billion in 2013-14 (see table below). The Governor is proposing to eliminate all cross fiscal year deferrals in 2014-15. Please see Appendix B for a graphic illustration of statewide principal apportionment deferrals in 2013-14.

Time Frame	2012-13	2013-14	2014-15
February to July	\$531.720 million	Rescinded	
March to August	\$1.029 billion	Rescinded	
April to August	\$763.794 million	Rescinded	

April to July	\$594.748 million	\$917.5 million	Elimination proposed
May to July	\$1.977 billion	\$2.352 billion	Elimination proposed
June to July	\$2.5 billion	\$2.352 billion	Elimination proposed
Deferred across fiscal years	\$7.4 billion	\$5.6 billion	\$0 (proposed)

The State Treasurer's Office and the State Controller's Office have agreed on the following K-12 deferral payment dates:

K-12

- April 2014 – 7/14/2014
- May 2014 – 7/14/2014
- June 2014 – 7/24/2014

Our office recommends 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.
 - 42.21% of the April P-1 apportionment will be deferred to July.
 - 100% 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.
- Create two cash flow projection scenarios for 2014-15. The first scenario should assume the continuation of some 2013-14 deferrals and the second scenario should assume that all of the deferrals are eliminated.
- 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).

Education Protection Account

The Education Protection Account (EPA) provides local educational agencies (LEAs) with general purpose state aid funding pursuant to Proposition 30, the Schools and Local Public Safety Protection Act of 2012, approved by the voters on November 6, 2012. These temporary taxes are set to expire as follows:

- 2016, additional ¼ cent sales tax expires.
- 2018, increase to personal income tax for high income earners expires

The California Department of Education posts information and frequently asked questions on the EPA. The [Education Protection Account \(EPA\) Web page](#) provides information on LEAs' EPA entitlements, the resulting impact to state funding, and FAQs.

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

The EPA funding is a component of an LEA's total revenue limit or charter school general purpose entitlement. EPA entitlements will continue to be calculated on revenue limit entitlements even under the LCFF.

Consistent with the current provisions of the EPA, all districts are guaranteed a minimum of \$200 per ADA beginning in 2012-13 and each year thereafter through 2018-19. For state funded districts, EPA is an offset to state aid. Because basic aid districts do not receive state aid, they receive this minimum EPA funding of \$200 per ADA as additional revenue.

The LCFF Calculator will generate estimated EPA revenue for budgeting purposes.

Funding Outside of LCFF

Categoricals/ Regulated Programs

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

The State Budget maintains funding and program requirements for the following categorical programs (Regulated Programs):

Resource	Program Name
6013	Adults in Correctional Facilities (2014-15 COLA .86%)
6010	After School Education & Safety Program
7010	Agricultural Vocational Education (proposed to be rolled into LCFF in 2014-15)
7210	American Indian Early Childhood Education (2014-15 COLA .86%)
0000	Assessments
0000	American Indian Early Childhood Education Program (2014-15 COLA .86%)
7365	Foster Youth Services Programs (2014-15 COLA .86%)
7220	Partnership Academies
7400	Quality Education Investment Act
6500, 6510	Special Education (2014-15 COLA 0.86%)

7370	Specialized Secondary Programs (proposed to be rolled into LCFF in 2014-15)
6055	State Preschool

Programs categorized as Tier III under SBX3 that have been flexed since 2008-09 are eliminated, including program requirements, 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.

Williams Act: Funding is absorbed by the LCFF, but the requirements are still in place. It is expected that LCFF funds will be used to meet the requirements.

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).

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. Carryover funds from EIA entitlements for 2012-13 and any previous fiscal years are still subject to the former EIA restrictions.

Lottery: Lottery funding is calculated in the same manner as prior years. The CDE estimates that the lottery will provide \$156 per ADA (\$126 per ADA in unrestricted lottery revenues and \$30 per ADA in Proposition 20 revenues) for 2013-14.

Mandated Costs: The adopted budget increases the Mandate 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 \$29 per ADA grades K-8 and \$57 per ADA grades 9-12. The Governor proposes adding three additional mandates to the block grant starting in 2014-15 - Uniform Complaint Procedures, Public Contracts, and Charter Schools IV - without proposing any increase to the amount of the block grant.

LEAs that do not opt to receive funding through the MBG will need to continue to collect data and submit for reimbursement. However, the budget does not include funding for mandated cost claims, although the Governor does suggest plans to retire outstanding claims in the 2015-16 through 2017-18 timeframe.

Routine Restricted Maintenance: LEAs continue to have flexibility to reduce the contribution to 1% (or 0% if in compliance with Williams) through 2014-15, and then the 3% requirement returns. 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, clean 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 flexibility.

Child Care

The 2014-15 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 childcare services, or both; fees cannot exceed 10% of the family's total income. The budget includes \$10 million to serve an additional 3,300 full-day children in general child care programs, alternative payment programs, and migrant child care.

FY 2014-15 Budget Proposal for Child Care and ECE

- **General Child Care:** \$478 million. Slight decrease to CCTR programs (\$4.9 million).
- **State Preschool:** \$509 million. Slight increase to Part-Day CSPP (\$2.1 million). Continues one-time only funding from 2013-14. Reflects a growth of 0.42%.
- **Alternative Payment:** \$179 million. Slight decrease to APP (\$1.8 million).
- **CalWORKs Child Care:** Funded based on use/demand projections. Right now: Stage 1 decrease (\$22 million). Stage 2 slight increase (\$6 million). Stage 3 slight increase (\$2.7 million).
- **Migrant Day Care:** \$26.8 million. Slight decrease (\$0.2 million).
- **Quality Improvement:** \$49.8 million. Slight decrease (\$1.5 million).
- **Resource and Referral:** \$18.7 million. Remains flat.
- **COLA:** None, except for American Indian Early Childhood Education, American Indian Education Centers, Child Nutrition, and Special

Education. (COLA for General Child Care programs eliminated until 2015-16.)

- **Growth:** The population of children 0-4 years has increased slightly and, therefore, a growth factor (0.42%) is applied.
- **Reimbursement:** No change to standard reimbursement rate or regional market rate. However, 2004 market (2005 survey) is still the basis of reimbursement cap.

On January 6, 2014, Senate Democrats introduced SB 837 (Steinberg), the Kindergarten Readiness Act of 2014, which calls for an expansion of Transitional Kindergarten (TK) to all 4-year-olds over a five year phase-in, starting in 2015-16 and continuing through 2019-20. However, the Governor did not include the TK expansion in the budget proposal.

Common Core Implementation Grant

To support the implementation of the Common Core State Standards, apportionments were made from funds provided in Assembly Bill (AB) 86, Section 85. Apportionment letters were issued August 23, 2013.

School districts, county offices of education, charter schools, and state special schools receiving these funds may encumber the funds any time during the 2013-14 or 2014-15 fiscal years. LEAs shall expend funds for any of the following purposes:

- Professional development for teachers, administrators, and paraprofessional educators or other classified employees involved in the direct instruction of pupils that is aligned to the academic content standards adopted pursuant to Sections 60605.8, 60605.11, 60605.85, and 60811.3 of the Education Code.
- Instructional materials aligned to the academic content standards referenced above.
- Integration of the academic content standards through technology-based instruction for purposes of improving the academic performance of pupils, including, but not limited to, expenditures necessary to support the administration of computer-based assessments and provide high-speed, high-bandwidth Internet connectivity for administering computer-based assessments.

As a condition of receiving these funds, the LEA must develop and adopt a plan delineating how funds shall be spent. The plan shall be explained in a public meeting of the LEA's governing board before its adoption in a subsequent public meeting and can be as simple as stating that the funds will be spent on the categories allowed (see above). Even if the details of a district's Common Core implementation needs are unknown at

this time, districts are encouraged to move forward with board adoption of a high level plan per the broad categories above to ensure compliance with the plan requirement. Detailed expenditure information is due to the CDE at the end of fiscal year 2014-15. The method for this report has yet to be determined.

Per AB 86, CDE allocated per-pupil funding based on prior-year enrollment data. The per-pupil award amount is \$200.96 per pupil using CALPADS fall enrollment data as of October 2012 that was certified on or before May 24, 2013. The first half of the allocation was received August 2013 and the final allocation was received October 2013.

These funds should be accounted for using Resource Code 7405 and Revenue Object Code 8590. Expenditure of funds will be subject to the annual audit required by EC 41020. Indirect costs are allowed at the LEA approved rate.

Federal Funding / Sequestration

On January 18, 2014, the President signed the Consolidated Appropriations Act, which finalized Fiscal Year (FY) 2014 funding for all government agencies including Education and ends the possibility of further sequestration cuts in FY 2014. However, the Budget Control Act is still in effect until 2023, and its sequestration elements still could come into play in future years.

The Labor, Health and Human Services and Education section of the Consolidated Appropriations Act funds Title I at \$14.38 billion with a \$624.5 million increase above the FY 2013 sequestration level. IDEA funding for FY 2014 is \$11.4 billion with a \$497.9 million increase above the FY 2013 sequestration level. This represents a 4.5% funding increase for Title I and IDEA above the FY 2013 sequestration level. These increases partially restore the 5.23% sequestration cuts these programs experienced in FY 2013. Districts receiving Impact Aid funding will see the FY 2013 5.23% sequestration cuts restored in FY 2014 because Impact Aid is now funded at \$100 million above its pre-sequestration FY 2013 level.

An early estimate for FY 2014 is that California schools should receive an increase of approximately \$60 million for Title I and \$50 million for IDEA above the FY 2013 sequestration levels. California will need to submit a competitive application to obtain funding for a newly enacted preschool Early Childhood program, which will be jointly administered by the Departments of Health and Human Services and Education.

For Second Interim Budget development and multiyear planning, continue to assume the 5.2% reduction in all federal education programs (child nutrition is exempt) for the 2013-14 school year. Federal funds received during school year 2013-14 were funded in FY 2013 and were subjected to the Budget Control Act sequestration cuts.

For the 2014-15 school year, which is funded with FY 2014 funds, it is recommended that districts expect a 4.5% increase in funding for Title I and IDEA above the FY 2013 sequestration levels. The Perkins Career and Technical Education program will be funded at 5.0% above the FY 2013 sequestration levels. For years subsequent to 2014-15,

it would be prudent to plan for possible additional reductions in federal funding until Congress resolves the federal deficit issues that led to sequestration.

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 removed Foster Youth Services from the list of categorical programs that are rolled into the LCFF. 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.

AB 97 required the state Department of Social Services to enter into an MOU with the CDE to share data related to pupils in foster care. The CDE is then required to inform LEAs, at least weekly, of any pupils enrolled in their schools who are in foster care to ensure these students receive the appropriate educational support and services.

CDE and the California Department of Social Services (CDSS) have entered into an MOU to conduct statewide matching of student data to foster data to ensure that foster youth are included in the unduplicated count. Any matches that are not already reported as foster youth in an LEA's Fall 1 CALPADS data will be included in the LEA's unduplicated count by CDE.

CDE and CDSS are still working to amend the initial MOU to enable the weekly re-disclosure of foster data to LEAs, and CDE is simultaneously developing the required CALPADS functionality. Implementation of this new functionality is scheduled for late fall 2014.

Medi-Cal Administrative Activities

In June 2012, the Centers for Medicare and Medicaid Services (CMS) notified the California Department of Health Care Services (DHCS) that because of a federal review conducted in spring 2012, all School Based Medi-Cal Administrative Activities (MAA or SMAA) claims were deferred pending an agreement with CMS to provide additional source documentation. In July 2012, DHCS requested that California be allowed to "interim claim" for 2012-13. California was given that approval provided DHCS moved toward a new claiming methodology for 2013-14.

In the meantime, DHCS collaborated with the Local Educational Consortiums (LECs) and Local Government Agencies (LGAs) to develop and implement the Random Moment Time Study (RMTS) methodology. However, due to concerns raised by various school-based associations, this process has taken longer than anticipated and California was

unable to finalize the new plan prior to the 2013-14 claiming year. Therefore, DHCS requested California be allowed to interim claim another year.

In October 2013, CMS granted conditional approval of interim claiming for 2013-14 and included a timeline delineating the milestones that must be met by DHCS to ensure implementation of the new RMTS claiming plan by July 1, 2014. Unfortunately, the submission of the revised RMTS claiming plan to CMS was delayed to mid-January to allow time for further discussions about the proposed plan with certain school-based associations. On Friday, January 24, 2014, DHCS reported that submission of required documentation to CMS was completed and that LECs/LGAs could continue the RMTS RFP process.

In response to the field DHCS is working hard to enhance the communication among all stakeholders in the SMAA program and has been posting updates on the SMAA website every Friday afternoon. The link for this site is <http://www.dhcs.ca.gov/provgovpart/Pages/SMAAWhatsNew.aspx>. The first meeting of the new SMAA stakeholder forum is scheduled for Wednesday, February 12, 2014. Email DHCS at smaa@dhcs.ca.gov for pertinent details.

For MAA claims in 2013-14, CMS required a Reasonableness Test Criteria (RTC) process to be developed and applied to all the deferred and subsequent year invoices. The RTC certification process was developed and posted. LEAs are advised to work closely with their LEC/LGA SMAA coordinators to ensure their invoices are processed with the RTC criteria. The link for this information is <http://www.dhcs.ca.gov/provgovpart/Pages/ParticipantUniverse.aspx>. The state has established a SharePoint site and will provide training for LECs/LGAs to submit large files for the RTC process.

DHCS has offered LEAs the option of netting invoices if they owe money back to DHCS from those deferred and subsequent years' invoices. The netting of invoices may prevent districts from having to physically write checks back to the state for disallowed claims. Depending on the local circumstances, LEAs should contact their LECs/LGAs if they plan to submit all the invoices in a package to utilize this option.

Proposition 39

SB 73 (Chapter 29/Statutes 2013) is the implementation bill for Proposition 39, the California Clean Energy Jobs Act. 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, funds will be provided for K-14 schools. In 2013-14 the total funding is projected to be \$428 million. 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 (second principal apportionment of prior year) and 15% on the basis of free and reduced price meal-eligible students (prior year). The CDE has posted 2013-14 entitlement amounts, but specifies

that these amounts are subject to revision. They are available at:

<http://www.cde.ca.gov/fg/fo/r14/prop39ccej13result.asp>.

Minimum grants will be \$15,000 plus free and reduced priced meals (FRMP) allotment for LEAs with 100 or less prior year P2 ADA, no less than \$50,000 plus FRPM allotment for LEAs with more than 100 to 1,000 prior year P2 ADA, and no less than \$100,000 plus FRPM allotment for LEAs with more than 1,000 but less than 2,000 prior year P2 ADA. In addition, LEAs with 1,000 or less prior year P2 ADA may receive advances on future allocations, allowing them to bundle two years of funding.

Note that the Proposition 39 legislation and the associated audit procedure (see *Audit Requirements* section state that “**an LEA may not use a sole source process to award funds**, and that an LEA may use the best value criteria as defined in paragraph (1) of subdivision (c) of Section 20133 of the Public Contract Code.” Clarification of the legislative intent is being sought, but at for now LEAs may want to seek legal counsel, and at a minimum will need to document that an appropriate competitive process is used in awarding any Proposition 39 funds.

LEAs with 2,000 or more prior year P-2 ADA will receive their allocation based on a per-ADA allocation. 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.

LEAs may pursue other programs and incentives to leverage Proposition 39 awards such as but not limited to: Bright Schools Program, California Conservation Corps, bond funding and local government program.

LEAs are expected to provide specific data to the Energy Commission including but not limited to an Energy Expenditure Plan with specific required elements, access to all utility data for the past 12 months, benchmarking data, cost efficiency analysis, and ongoing analysis.

Allowable uses of Proposition 39 funds include:

- Energy planning activities occurring on or after July 1, 2013
- Energy audits and energy surveys/assessments
- Proposition 39 program assistance
- Hiring or retaining of an energy manager with a maximum cost of 10% of the award or \$100,000 each year
- Energy-related training for classified employees

The California Energy Commission (CEC) released guidelines in December 2013 that outline an eight-step process for participating in the Proposition 39 program, which includes an audit step. These guidelines are available at: <http://www.energy.ca.gov/2013publications/CEC-400-2013-010/CEC-400-2013-010-CMF.pdf>

LEAs should not commit the anticipated funds until they are familiar with the final guidelines and the criteria to enable them to apply and collect the funds.

The following websites contain additional information regarding the funding:

CDE: <http://www.cde.ca.gov/fg/aa/ca/prop39cceja.asp>

California Energy Commission:

<http://www.energy.ca.gov/efficiency/proposition39/faq.html>

Redevelopment Agencies

AB 1484 prescribed 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.”

Staying current with the amounts and types of revenues received from successor agencies, whether those revenues come as pass-through payments, Educational Revenue Augmentation Fund (ERAF) monies, residual revenues or dollars from asset sales, is critical to ensure accurate budgeting and long-term forecasting, especially if those revenue streams are counted on for debt service and/or ongoing operational expenditures. In addition, keeping current on the status of debt payments and other recognized obligations of any successor agency from which payments are received is critical so that, if warranted, LEAs can begin initiating plans for the early termination of those payments. Any district utilizing pass-through payments for debt service and or ongoing operational costs should pay particular attention to the estimated life of the applicable projects within any former RDA and develop contingency plans to service debt or transfer operational costs as the district’s situation may warrant.

Districts should work closely with successor agency staff, the county auditor, county office staff and/or redevelopment consultants to ensure accuracy in amount of redevelopment dollars received and the accurate reporting of such.

REMINDER: All local successor agencies are scheduled to be consolidated into one countywide successor agency in July 2016. Districts are encouraged to review annually all their redevelopment revenues to allow sufficient time to work with the local agency(ies) to address any local tax sharing discrepancies that may exist. The opportunity for these local conversations is quickly closing as the termination date for local successor agencies draws near.

Special Education

Special education will continue to be funded outside the LCFF. For 2014-15 the Governor proposes funding a 0.86% COLA, which is estimated to be \$4.39 per ADA.

The State has convened a Special Education Task Force to focus on identifying the vision and mission for students with disabilities, and to propose possible reforms. See <http://www.cde.ca.gov/be/pn/pn/ssetfprojectsummary.asp>, and <http://www.smcoe.k12.ca.us/spedtf/Pages/default.aspx> for more details. The Task Force is expected to issue recommendations in late 2014.

Other Issues

Audit Requirements

The Enacted Budget and subsequent cleanup legislation call for multiple new or revised audit requirements. Proposed audit procedures to implement the legislative requirements will be developed by the K-12 Audit Guide Committee convened by the State Controller's Office. The Committee's recommendations ultimately must be approved by the Education Audit Appeals Panel (EAAP). Some of the new requirements have been adopted as emergency regulations for the 2013-14 audit guide, while others will be adopted through the standard regulatory process for implementation in 2014-15.

EAAP adopted a set of emergency regulations to effect changes to the 2013-14 Audit Guide at meetings on January 27 and February 10, 2014. Per the notice posted on EAAP's website at <http://eaap.ca.gov/audit-guide/rulemaking-activities/> the public has the opportunity to make written comments regarding the proposed changes to the Office of Administrative Law (OAL) and simultaneously to EAAP by no later than 5 p.m. on Monday, February 24, 2014.

A summary of the proposed changes is provided below:

2013-14 Audit Guide Amendments and Deletions

- Section 19815(e)(4) and 19816(i)(2). Amend for a technical change (title of report OMB A-133 Report).
- Section 19824. Instructional Time. Procedures for auditing instructional time requirements will be updated to reflect enacted budget changes to Education Code 46207 and the addition of 46208, including procedures distinguishing between districts that are fully funded at their LCFF Target and those that are not (See the Instructional Days section for more on this subject).
- Section 19828.4. Instructional Materials. Amend procedures to reflect how findings are reported. Because there is no longer any program funding (merged into LCFF), findings will simply report noncompliance.

- Section 19845.2. Class Size Reduction. Remove procedures.
- Section 19850. Contemporaneous Records of Attendance (Charter Schools). Amend procedures to reflect Assembly Bill 86 requirements. Section 19850 will be amended to require that auditors (highlights):
 - Verify that charter ADA is calculated by dividing the charter school's total number of pupil-days of attendance by the number of calendar days on which school was taught in the charter school through the Second Principal and Annual apportionment periods, and that the divisor used matches the school calendar.
 - Verify that no pupil generated more than one day of attendance in a calendar day.
 - Verify that ADA was calculated separately for each track.
- Multiple Sections. Attendance Amendment for Grade Span and Ungraded ADA. Amend procedures to reflect grade span reporting and proportionally allocate ungraded disallowed ADA.

2013-14 Audit Guide New Procedures

- **Local Control Funding Formula - New procedures (Includes K-3 GSA)**

For 2013-14 only the following procedure covers LCFF compliance requirements including adequate progress toward the 24:1 K-3 class size ratio as required for the K-3 GSA. For 2013-14 the audit procedure will only require a verification that the LEA is aware of the LCFF requirements, and the audit procedure will not have funding consequences.

New procedures will be instituted in 2014-15 that will, among other things, require LEAs to demonstrate that they have made adequate progress toward the 24:1 class size ratio equivalent to the gap percentage funded for both 2013-14 and 2014-15, or risk losing all K-3 GSA funds.

The entire 2013-14 procedure is reproduced below.

§ 19843. Local Control Funding Formula Certification.

For the 2013-14 fiscal year, perform the following procedures:

(a) Verify that the school district, county office of education, or charter school has confirmed in writing its awareness of the requirements of the Local Control Funding Formula pursuant to Education Code Sections 2574, 2575, 42238.02, 42238.03, and 42238.07, as applicable, for the 2013-14 fiscal year. A written certification signed by each school district's, county office of education's,

or charter school's superintendent, administrator, or authorized designee shall be deemed sufficient verification. (An example of an acceptable certification can be found on CDE's website under Local Control Funding Formula).

(b) If the auditor is unable to perform the verification in paragraph (a) include a finding in the Findings and Recommendations section of the audit report that states the school district, county office of education, or charter school did not confirm in writing its awareness of the requirements of the Local Control Funding Formula for fiscal year 2013-14 and recommend compliance with those requirements in the 2014-15 fiscal year.

- **Common Core State Standard** - New procedures. Proposed new procedures for Common Core funds include (highlights):
 - 2013-14 – Determine if the LEA had any expenditures of Resource 7405 funds. If not, no further procedures are needed for 2013-14. If the district did expend from 7405, then:
 - Determine if the LEA adopted an expenditure plan as required by law.
 - Sample expenditures to confirm they were for allowable categories of expense per AB 86.
 - Findings in 2013-14 related to the procedures above would recommend adopting an expenditure plan if needed, and making correcting journal entries if funds were expended on unallowable items.
- **Unduplicated Pupil Counts (Local Control Funding Formula)** - New procedures. The proposed procedures call for auditors to obtain a copy of the LEA's CALPADS "1.17 - FRPM/English Learner/Foster Youth - Count" report and sample the FRPM (non-direct certified), EL, and EL and FRPM populations to verify that the LEA has appropriate supporting documentation for the classification(s). The full procedure as proposed:

§ 19849. Unduplicated Local Control Funding Formula Pupil Counts.

(a) Obtain a copy of the LEA's certified "1.17 – FRPM/English Learner/Foster Youth – Count" report. For every school tested for attendance in Section 19817.2 or Section 19850, obtain a copy of the school's certified "1.18 – FRPM / English Learner / Foster Youth – Student List" report. For each student list obtained:

(1) Select a representative sample, to achieve a high level of assurance, from the students indicated as a "No" under the "Direct Certification" column, that are only free or reduced priced meal eligible (FRPM) identified under the "NSLP Program" column and verify there is supporting documentation such as a Free and Reduced Price Meal (FRPM) eligibility application under a

federal nutrition program or an alternative household income data collection form that indicates the student was eligible for the designation.

(2) Select a representative sample, to achieve a high level of assurance, from the students that are only English Learner (EL) eligible as identified under the “ELAS Designation” column and verify there is supporting documentation that indicates the student was eligible for the designation.

(3) Select a representative sample, to achieve a high level of assurance, from the students indicated as a “No” under the “Direct Certification” column, that are both included in the “NSLP Program” column and the “ELAS Designation” column and verify that there is supporting documentation for at least one of the designations as required by steps (a)(1) or (a)(2).

(b) For any errors noted in testing procedures described in subdivision (a), determine the total impact of that error on the specific section tested and the individual school site. This determination should be made either by an extrapolation of the impact of the error, further audit procedures, or testing of 100 percent of the population where the error was discovered.

(c) Based on the results of the procedures described in subdivisions (a) and (b), select additional schools as deemed necessary, e.g., if similar errors of inaccuracy or miscalculation would be likely to produce material results in those schools, and perform those procedures on each additional school.

(d) If any of the unduplicated pupil counts were inappropriately reported, prepare a finding and report the method for determining the total impact of the finding on the LEA, and include a schedule of unduplicated pupil counts summarizing the results of the procedures and displaying any inappropriately reported unduplicated pupil counts in the Findings and Recommendations section of the audit report. The schedule should include the LEA’s certified total unduplicated pupil count and enrollment count as reported in the California Longitudinal Pupil Achievement Data System (CalPADS), show increases or decreases to the unduplicated pupil count based on any audit adjustments by including the following: unduplicated pupil count adjustment based on eligibility for FRPM; unduplicated pupil count adjustment based on eligibility for EL funding, unduplicated pupil count adjustment based on eligibility for both FRPM and EL; and the adjusted total unduplicated pupil count and enrollment counts of each school tested and of the entire LEA.

(e) Charter schools should be presented separately and should not be combined with district or county office of education (COE) data on this schedule. For COEs and charter schools that operate COE programs, separately report pupils funded pursuant to Education Code Section 2574(c)(4)(A), juvenile court pupils funded pursuant to Education Code

Section 2574(c)(4)(B), and all other pupils. For COEs, the district of residence needs to be identified for pupils in the “all other pupils” category.

NOTE: Authority cited: Section 14502.1, Education Code. Reference: Sections 14502.1, 14503, 2574(b)(3)(C), 44238.02(b)(3)(B), and 41020, Education Code.

- **California Clean Energy Job Act** - New procedures. See full procedure below (**bold** added for emphasis):

§ 19844. California Clean Energy Job Act.

(a) Select a representative sample of California Clean Energy Jobs Act expenditures and verify they were consistent with the plan, and any amendments, approved by the California Energy Commission pursuant to Section 26235(f) of the Public Resources Code, and applicable California Energy Commission implementation guidelines.

(b) Verify that the total expenditures for planning funds did not exceed the planning fund award amount.

(c) Verify that the LEA was in compliance with Section 26235(c) of the Public Resources Code which states that an LEA may not use a sole source process to award funds, and that an LEA may use the best value criteria as defined in paragraph (1) of subdivision (c) of Section 20133 of the Public Contract Code.

(d) If any California Clean Energy Jobs Act expenditures are found to have been made for nonqualifying purposes or not in accordance with law, list such expenditures by type and amount, and state the total in the Findings and Recommendations section of the audit report.

NOTE: Authority cited: Section 14502.1, Education Code. Reference: Sections 14502.1, 14503 and 41020, Education Code; Section 26240, Public Resources Code.

- **Charter School Facility Grant** - New procedures. Proposed procedures include verifying that grant funds were used for costs associated with facilities rents and leases of charter school facilities.

2014-15 Procedures in Development

- Local Control and Accountability Plan – Procedure to verify that expenditures are aligned with the LCAP.
- K-3 GSA – Procedure to verify that the LEA has made adequate progress toward the 24:1 K-3 average class size.

- SB 379 Middle College ADA
- Common Core: Add procedure verifying required expenditure report was submitted, and modify 2013-14 procedure to disallow expenditures if LEA did not comply with plan adoption requirement and/or used the funds for disallowed categories of expense.

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 Adopted Budget continues to provide all school districts, county offices of education and charter schools with school year reduction flexibility through 2014-15. The link below provides guidance on how to make the reduced instructional minutes calculation.

<http://www.cde.ca.gov/fg/au/ag/reducingit.asp>

Education Codes 46207 and 46208 have been added, requiring districts whose funding equals or exceeds their LCFF target to offer the statutorily required instructional minutes and 180 days or more of instruction, but the flexibility to reduce the year by up to five days provided in Education Code 46201.2 remains through 2014-15. Both 46207 and 46208 provide for the withholding of LCFF apportionment from school districts offering less than the minimum instructional minutes or days.

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 district or charter operating as a multitrack year-round school is in compliance with the 180-day requirement if it certifies to the Superintendent of Public Instruction that it is a multitrack year-round school and maintains its school for a minimum of 163 school days.

Education Code Sections 46207 and 46208 have been added to include instructional day regulations for LEAs not participating in the longer day/year incentive program. Once an LEA equals or exceeds its LCFF target, as a condition of apportionment it shall offer 180 days or more of instruction per school year. This provision affects 13 school districts and 18 county offices. The CDE list of school districts and county offices can be found at <http://www.cde.ca.gov/fg/au/ag/nolongdyr04.asp>.

Retirement

With the passage of the Public Employees' Pension Reform Act of 2013 (PEPRA) and the continuing audit of State Teachers Retirement System reporting, it is more important than ever that school districts follow Government and Education Code in hiring, paying and reporting employee wages. A summary of recent developments in CalPERS and CalSTRS and how they may impact LEA budgets follows.

CalPERS

The CalPERS 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. Without a statutory cap on PERS contributions, an LEA's exposure to the increasing contribution rates is not limited. Additional employer contributions should be anticipated in creating multiyear projections.

PERS Circular 200-002-14: Post Service Retirement Employment Requirements, dated January 14, 2014, is a checklist for hiring a PERS retiree in compliance with PEPRA and PERS regulations. The Circular letter can be found on the PERS website by using the following link: <http://www.calpers.ca.gov/index.jsp?bc=/employer/cir-ltrs/2014-cir-ltrs.xml>

Note the following cautions when hiring a CalPERS retiree:

1. The retiree cannot be hired into a permanent position without reinstatement from retirement.
2. CalPERS determines that if a common law employer-employee relationship exists, then the employment is subject to retirement law requirements – reporting to PERS, 180-day wait period after retirement, 960-hour limit – even though the worker was hired as an independent contractor, consultant or contracted through a third party employer.
3. The retiree must not have received unemployment insurance payments for previous retired annuitant work with any CalPERS employer for the previous 12-month period.
4. There are a few exceptions to the requirement that CalPERS retirees not be employed with any public agency for 180 days after their retirement date. The public agency or school employer must certify the nature of the employment, that the appointment is necessary to fill a critically needed position, and the appointment must be approved by the governing board in a public meeting on a separate agenda item (not

on the consent calendar). The resolution must be approved by the county office of education, and the school district certification and the resolution must be received by CalPERS before the hire date of the retiree.

5. There can be no exception to the 180-day wait period if the retiree accepted a Golden Handshake or any other employer retirement incentive.
6. Public school retirees are limited to 960 hours of public employment in a fiscal year.
7. The compensation paid to a retiree must be within the monthly range paid to other employees performing comparable duties. If the retiree is paid hourly, the hourly rate is the monthly rate divided by 173.333 hours.

CalSTRS

On August 29, 2012, CalSTRS issued Employer Information Circular 12-1, which clarified “creditable service” as defined in Education Code 22119.5. EIC 12-1 (<http://www.calstrs.com/sites/main/files/file-attachments/eicvol28iss1.pdf>) listed positions that CalSTRS has determined are not creditable for the CalSTRS retirement system – Chief of Police; Director of Buildings, Grounds, and Maintenance; Director of Human Resources; Chief Information Technology Officer; Director of Payroll Services and Chief Financial Officer.

Some members of CalSTRS expressed concerns because they had accepted positions named above with the understanding that they were subject to CalSTRS reporting and were not provided a form to elect to remain in CalSTRS service (Form ES372) within the 60-day timeline for filing. To address those concerns, CalSTRS published Employer Circular 13-3, Right of Retirement System Election when Changing Positions: <http://www.calstrs.com/sites/main/files/file-attachments/eicvol29iss3.pdf>

CalSTRS will allow a one-time window of 180 days from the date of the EIC for members to make the election to continue to participate in CalSTRS. It is recommended any district that employed CalSTRS members in classified positions who were not offered the opportunity to elect to remain in CalSTRS take this opportunity to correct the error. Send election forms to all affected employees, former employees or retirees for their signature and submit to CalSTRS to be received before May 23, 2014.

In his Proposed Budget, the Governor indicates his intention to move to a fully funded retirement system for CalSTRS with a “plan of shared responsibility.” Assembly Speaker John Perez has announced hearings to address the funding shortfall, estimated at \$71 billion. The first hearing is scheduled for February 19, 2014.

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

Property Taxes

School districts are advised to use the 2013-14 P-1 property tax estimates when preparing the 2013-14 Second Interim report. The Orange County Auditor-Controller will provide 2013-14 P-2 property tax estimates in April 2014.

Interest Yield Projections

The current year-to-date gross yield (through January 2014) is 0.29% for the Orange County Educational Investment Pool. The Orange County Treasurer-Tax Collector forecasts a gross yield for 2013-14 of slightly lower than 0.37% based on the continued low short-term interest rates.

Summary

Funding is slowly being restored to pre-recession levels, but LEAs cannot simply return to pre-recession practices and programs if the promise of the LCFF is to be realized. For decades LEAs have been asking for more flexibility to let local communities decide how to use education funding. Now that this request has been granted, it is imperative that the education community demonstrates that local control produces better educational outcomes for all students.

Appendices

Appendix A – List of Programs Folded into the LCFF

Appendix B – FCMAT Indicators

Appendix C – Delayed Principal Apportionment Funding

Appendix D – LCFF Acronyms

Appendix E – How Certified CALPADS Data are Used and Consequences

Appendix A – List of Programs Folded into the LCFF

Program	2012-13 Budget Act Reference	2012-13 PCA Reference
Remedial Program (Supplemental Instruction)	6110-104-0001(1)	23807
Retained and Recommended for Retention (Supplemental Instruction)	6110-104-0001(2)	23834
Low STAR Score and at Risk of Retention (Supplemental Instruction)	6110-104-0001(3)	24228
Core Academic Program (Supplemental Instruction)	6110-104-0001(4)	23740
Regional Occupational Centers/Programs	6110-105-0001(1)	23707
COE Fiscal Oversight	6110-107-0001(1)	23633
Middle & High SchoolCounseling	6110-108-0001	24805
Pupil Transportation Home-to-School & Severely Disabled/Orthopedically Impaired	6110-111-0001(1)	23366
Small District/COE Bus Replacement	6110-111-0001(2)	23123
Gifted and Talented Education	6110-124-0001	23856
Economic Impact Aid (EIA)	6110-128-0001	23654
Math & Reading ProfessionalDevelopment	6110-137-0001	24389
Math & Reading ProfessionalDevelopmentEnglish Learners	6110-137-0001 (Prov.3)	24854
AdministratorTraining Program	6110-144-0001	24390
Adult Education	6110-156-0001(1)	23616
EducationTechnology CTAP	6110-181-0001	23975
EducationTechnology SETS	6110-181-0001	24194
Deferred Maintenance	6110-188-0001	
Instructional Materials Fund Realignment Program	6110-189-0001	24418
Community Day School Additional Funding	6110-190-0001	23141
BilingualTeacher Training	6110-193-0001(1)	23786
Peer Assistance & Review	6110-193-0001(2)	24034
Reader Services for Blind Teachers	6110-193-0001(3)	23438
National Board Certification	6110-195-0001	24042
California School Age Families Education(Cal-SAFE)	6110-198-0001(1),(2),(3)	24000/24001/24054
CaliforniaHigh SchoolExit ExamIntensiveInstruction	6110-204-0001	24732
Center for Civic Education	6110-208-0001	24122
PENDINGTeacher Dismissal Apportionments (SCO) *	6110-209-0001	
Charter School Categorical Block Grant	6110-211-0001(1)	23721
Charter School In-Lieu of EIA	6110-211-0001(2)	24994
New Charter Supplemental Categorical Block Grant	6110-212-0001	25154
CommunityBasedEnglishTutoring	6110-227-0001	24918
School Safety Block Grant(Districts)	6110-228-0001	23718
School Safety Block Grant(Counties)	6110-228-0001 (Prov.2)	24528
Class Size ReductionGrade 9	6110-232-0001	23498
International Baccalaureate	6110-240-0001(1)	23901
Advance Placement Fee Reimbursement	6110-240-0001(2)	23900
California Assoc. of Student Councils	6110-242-0001	24120
PupilRetentionBlock Grant	6110-243-0001	24715
TeacherCredentialingBlock Grant	6110-244-0001	24714
TeacherCredentialingBlock Grant Regional Support	6110-244-0001 (Prov.1)	24713
ProfessionalDevelopmentBlock Grant	6110-245-0001	24716
TargetedInstructionalImprovementBlock Grant	6110-246-0001	24717
School &LibraryImprovementBlock Grant	6110-247-0001	24718
SchoolSafetyCompetitiveBlockGrant	6110-248-0001	24847
School Safety Competitive Regional	6110-248-0001 (Prov.1)	23854
PhysicalEducation Teacher Incentive	6110-260-0001	24806
Arts and Music Block Grant	6110-265-0001	24807
WilliamsCountyOversight	6110-266-0001	24808
ValenzuelaCounty Oversight	6110-266-0001 (Prov.1)	24942
Certificated Staff Mentoring	6110-267-0001	24856
Oral Health(District)	6110-268-0001	24879
Oral Health (COE)	6110-268-0001	24879
PENDINGStandards for Preparation and Licensing of Teachers (CTC) *	6360-101-0001	
Community Day School Additional Funding for Mandatory Expelled Pupils	EC 48915(c)	10127
Class Size ReductionKindergarten-Grade 3	SB 1016; Sec 91 (Chp 38, 2012)	25201

Proposed for 2014-15

Agricultural Vocational Education - Resource 7010

Specialized Secondary Programs - Resource 7370

Fiscal Health Risk Analysis

Key Fiscal Indicators

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.



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

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

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
Unrestricted General Fund Total General Fund

<u>Statewide Averages</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
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? ☐ ☐ ☐

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

<i>Is the district's fiscal health acceptable in the following areas?</i>	Yes	No	N/A
14. Charter Schools	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Has the district identified a specific employee or department to be responsible for oversight of the charter?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Has the charter school submitted the required financial reports?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Has the charter school commissioned an independent audit?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Does the audit reflect findings that will not impact the fiscal certification of the authorizing agency?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• 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?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15. Audit Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Did the district receive an audit report without material findings?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Can the audit findings be addressed without impacting the district's fiscal health?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Has the audit report been completed and presented within the statutory time line?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Are audit findings and recommendations reviewed with the board?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Did the audit report meet both GAAP and GASB standards?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16. Facilities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Has the district passed a general obligation bond?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Has the district met the audit and reporting requirements of Proposition 39?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Is the district participating in the state's School Facilities Program?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Does the district have sufficient personnel to properly track and account for facility-related projects?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Has the district met the reporting requirements of the Williams Act?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Is the district properly accounting for the 3% Routine Repair and Maintenance Account requirement at the time of budget adoption?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• If needed, does the district have surplus property that may be sold or used for lease revenues?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• If needed, are there other potential statutory options?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- 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

Low

5 – 9

Moderate

10 – 14

High

15 – 17

Extremely High

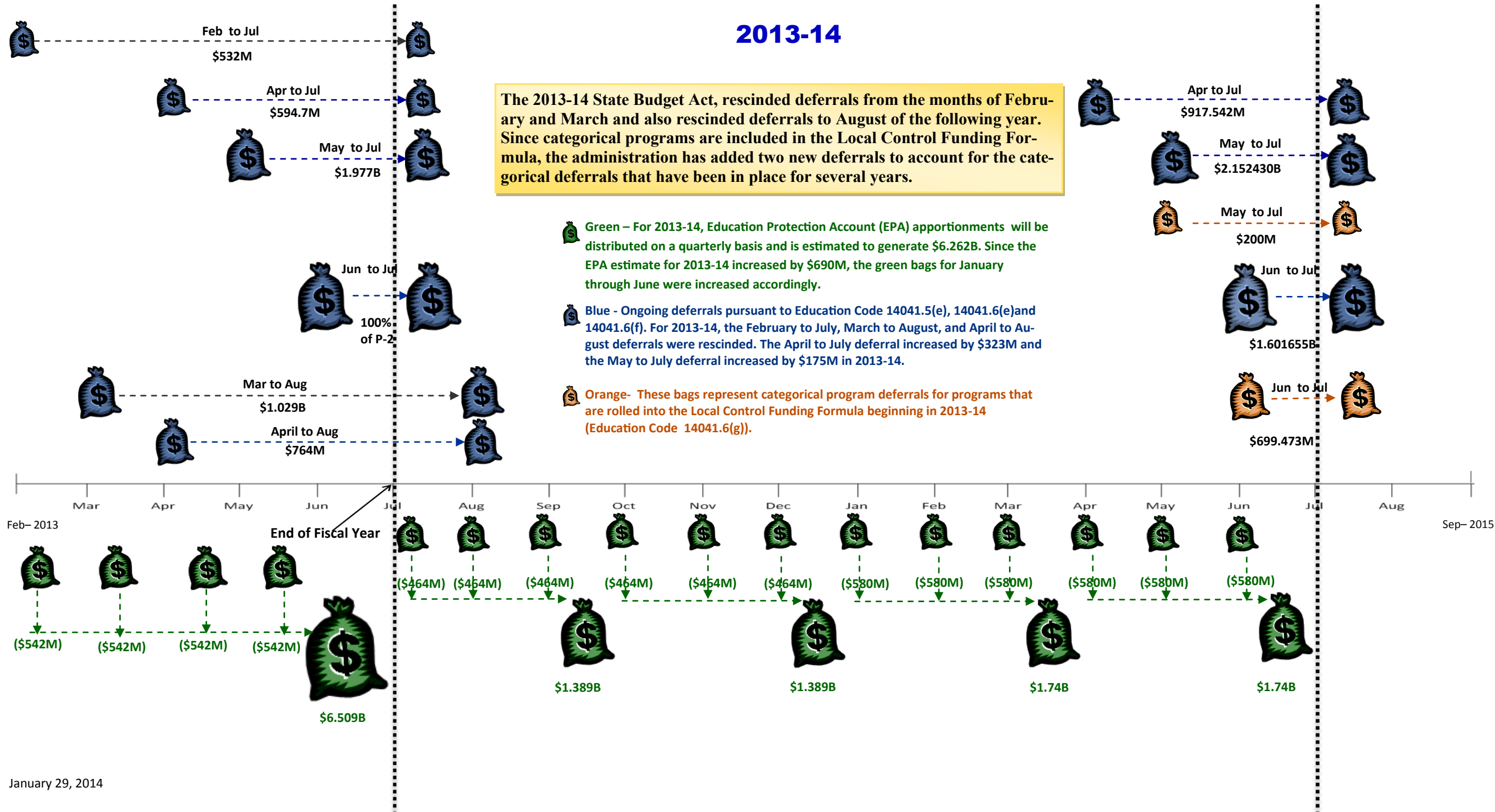
**Total "No"
Responses**

Delayed Principal Apportionment Funding

2014-15 Governor's Budget

2012-13

2013-14



Delayed Principal Apportionment Funding


2014-15 Governor's Budget

2013-14

2014-15

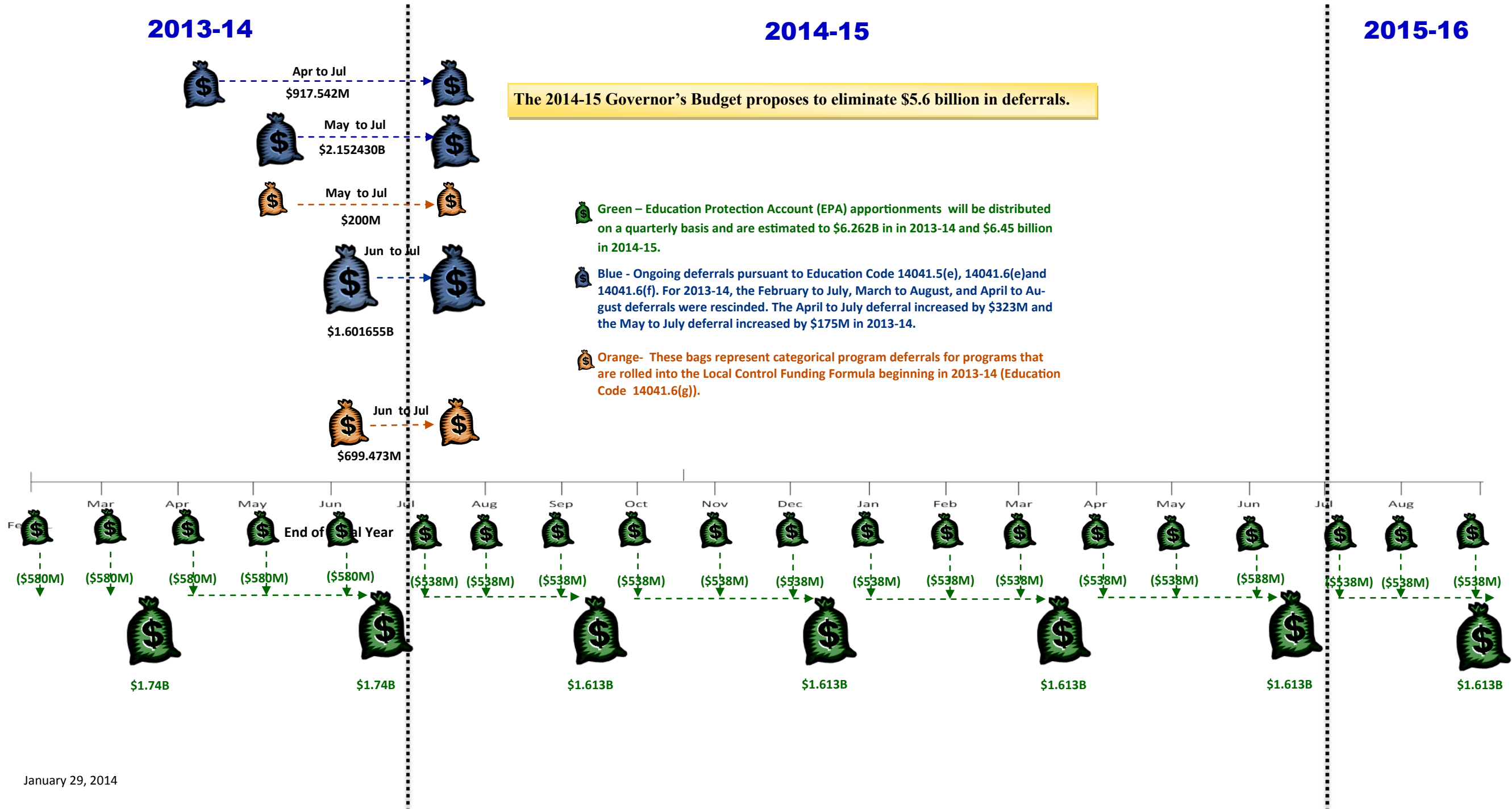
2015-16

The 2014-15 Governor's Budget proposes to eliminate \$5.6 billion in deferrals.

 Green – Education Protection Account (EPA) apportionments will be distributed on a quarterly basis and are estimated to \$6.262B in 2013-14 and \$6.45 billion in 2014-15.

 Blue - Ongoing deferrals pursuant to Education Code 14041.5(e), 14041.6(e) and 14041.6(f). For 2013-14, the February to July, March to August, and April to August deferrals were rescinded. The April to July deferral increased by \$323M and the May to July deferral increased by \$175M in 2013-14.

 Orange- These bags represent categorical program deferrals for programs that are rolled into the Local Control Funding Formula beginning in 2013-14 (Education Code 14041.6(g)).



LCFF Acronyms

• ADA	Average Daily Attendance
• BASC	Business and Administration Steering Committee
• BGS	Base Grade Span
• BOE	Board of Education (LEAs)
• CDE	California Department of Education
• COE	County Office of Education
• CY	Current Year
• DOF	Department of Finance
• EC	Education Code
• EL	English Learners
• ERT	Economic Recovery Target
• FRPM	Free and Reduced Priced Meals
• FY	Foster Youth
• GSA	Grad Span Adjustment
• LAO	Legislative Analyst's Office
• LEA	Local Educational Agency (Districts, Charters, & COEs)
• LCAP	Local Control Accountability Plan
• LCFF	Local Control Funding Formula
• LI	Low Income
• NSLP	National School Lunch Program
• NSS	Necessary Small School
• PY	Prior Year
• RL	Revenue Limit
• SACS	Standardized Account Code Structure
• SBE	State Board of Education
• SDC	Special Day Class
• SED	Socioeconomically Disadvantaged
• TIIBG	Targeted Instructional Improvement Block Grant

How Certified CALPADS Data are Used and Consequences

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

Annual Submission	State or Federal	State/Federal Data Usage	LEA Impact if Not Certified
Fall 1: <ul style="list-style-type: none"> 2013–14 enrollment counts 2012–13 Grads & Dropouts Immigrant counts Free and reduced meal counts English Language Acquisition Status 	State	DataQuest (Enrollment, Graduates, Dropouts, EL and FEP Counts, and SNOR)	0 counts
		School Accountability Report Card (SARC)	No SARC pre-population
		Economic Impact Aid (EIA) Program funding calculation	0 counts & impact on funding for COEs operating Juvenile Court schools and EIA-designated small rural districts
		Department of Finance for LCFF Supplemental and Concentration Funding	0 counts & impact on funding
		Quality Education Investment Act (QEIA) funding	0 counts & 0 funding
		Department of Finance for budget projections	0 counts
		To address requests from policy makers, researchers, and other entities	0 counts
	Federal	Title I and Title II	0 counts & 0 funding for COEs and Direct Funded Charter schools
		NCLB Consolidated State Performance Report (CSPR)	0 counts
		NCLB Title III Limited English Proficiency Program	0 counts & 0 funding
		NCLB Title III Immigrant Program (SNOR)	0 counts & 0 funding
		Titles VI & IX reports for the Civil Rights Act of 1964	0 counts
		Individuals with Disabilities Education Act (IDEA)	0 counts
		Various U.S. Department of Education (ED) organizational websites	0 counts
	Both	Eligibility to apply for various state and federal grants (especially those based on counts of socioeconomically disadvantaged students)	0 counts and ineligibility to apply for grants
Fall 2: <ul style="list-style-type: none"> Staff assignments Student course enrollments English Learner services Highly Qualified Teacher 	State	DataQuest (Teacher Counts, Course Enrollments, and EL Services)	0 counts
		CCR Title V, Section 97 (certificated staff)	0 counts
	Federal	NCLB Consolidated State Performance Report (CSPR)	0 counts
		Highly Qualified Teacher (HQT)	0 counts and potential placement on sanction list

How Certified CALPADS Data are Used and Consequences

EOY-1: <ul style="list-style-type: none"> Course completion Career Technical Education (CTE) concentrators and completers 	State	DataQuest (Course Completion & CTE)	0 counts
	Federal	Carl Perkins Program (CTE Concentrators and Completers)	0 counts & grant eligibility
EOY-2: <ul style="list-style-type: none"> Program participation Homeless enrolled counts 	State	DataQuest (Programs and Homeless)	0 counts
	Federal	Elementary and Secondary Education Act (ESEA) Title 1, Part A Neglected	0 counts & grant eligibility
		EDEN (Education Data Exchange Network) Reporting	0 counts
		NCLB Consolidated State Performance Report (CSPR)	0 counts
EOY-3: <ul style="list-style-type: none"> Student discipline 	State	DataQuest (Discipline)	0 counts
	Federal	NCLB Consolidated State Performance Report (CSPR)	0 counts
		NCLB Title IX - At Risk/Persistently Dangerous Schools	0 counts
		ESEA Title IV, Part A, Subpart 3, Section 4141 (e) - Firearm Offenses	0 counts
		Gun Free Schools Act Annual Survey	0 counts
EOY-4: <ul style="list-style-type: none"> Student waivers and exemptions 	State	DataQuest (Waivers and Exemptions)	0 counts
Assessments	State	School Accountability Report Card (SARC)	Assessment data is not certified, but if Suspense records are not fixed counts will be lower. 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 students groups	
	Federal	Adequate Yearly Progress (AYP) targets	