



June 4, 2014

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

Re: 2014-15 May Revision Budget Advisory

The budget advisory is intended to provide information and guidance to assist local educational agencies (LEAs) in preparing the 2014-15 July 1 Budget.

It contains updates related to the Governor's 2014-15 May Revision including revised planning factors for cost of living adjustments and Local Control Funding Formula (LCFF) gap funding percentages provided by the Governor's administration. It also includes details of the Governor's proposal to address the CalSTRS unfunded liability.

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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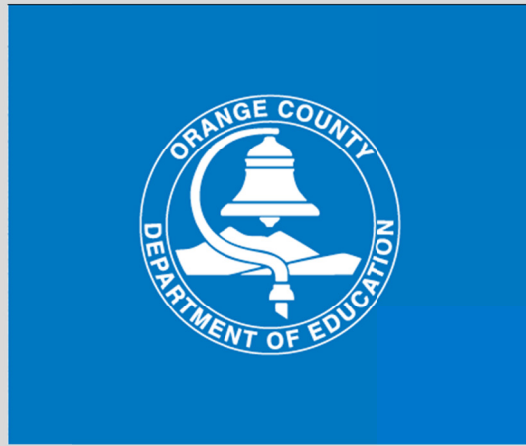
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Orange County Budget Advisory

2014-15 May Revision Edition

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Introduction

This budget advisory is intended to provide information and guidance to assist local educational agencies (LEAs) in developing 2014-15 adopted budgets. It contains significant updates from the Second Interim budget advisory related to the Governor's May Revision Budget, new K-12 Audit Guide procedures for 2014-15, and a number of technical clarifications.

Important new information since Second Interim is highlighted up front in the *Significant Changes since Second Interim* section, including a summary of key planning factors for budgets and multi-year projections (MYPs), and a listing of material changes to various sections of the document. Sections not listed in the material changes summary are unchanged since the last edition, and are included here for reference.

Significant Changes since Second Interim

Governor's May Revision Proposal

On May 13, Governor Brown released his May Revision to the 2014-15 proposed budget. While state revenues are now projected to be \$2.4 billion higher, total K-14 (Proposition 98) spending in the May Revision will only increase by \$242 million, and this increase is largely dedicated to cover increases in services due to projected average daily attendance (ADA) growth. The most significant change in terms of LEA budget planning since the Governor's January budget release is the proposal to begin immediately addressing the CalSTRS unfunded liability with increased employer, employee, and state contributions starting in 2014-15. Details of this proposal are covered in *Planning Factors for Budgets and MYPs* immediately following this section, and in the *Retirement* section.

Other significant proposed changes in the May Revision relative to the January budget include:

- K-12 High Speed Internet – A one-time \$26.7 million increase for the K-12 High Speed Network to conduct a comprehensive network assessment and to allocate grant funding to school districts with the greatest connectivity needs.
- ADA Growth – An additional \$103.1 million and \$121.1 million for projected ADA growth in 2013-14 and 2014-15 respectively.
- Local Control Funding Formula (LCFF) Unduplicated Pupil Calculations – Changes to the current methodology for determining unduplicated pupil counts in the LCFF related to Provision 2 and 3 schools, and optional substitution of 2014-15 data for 2013-14 – see *LCFF* and *CALPADS* sections for details.
- Cost-of-Living Adjustments (COLA) – A decrease of \$258,000 to reflect the revised COLA of 0.85%.
- Independent Study – revises the January reform proposal as detailed in the *Independent Study* section.

- K-12 Mandate Claims – Adds five new mandates: Parental Involvement, Williams Implementation I, II and III, and Developer Fees. \$1,000 in general fund costs was added for each new mandate.
- Rainy Day Fund – Changes to ACA 4 will be placed before voters in November.

Subsequent to the release of the May Revision, the Legislative Analyst's Office (LAO) announced a significantly higher revenue forecast. Budget committees in both houses of the Legislature subsequently adopted their own budget proposals that used the LAO's higher revenue forecast to fund additional K-12 spending in career technical education/regional occupational programs (CTE/ROP), preschool, and Common Core implementation among other items.

If the pattern of the past few years holds, negotiations between the Governor and legislative leaders over their competing proposals should produce a final budget by June 15.

Planning Factors for Budgets and MYPs

Key planning factors for LEAs to incorporate into adopted budgets and MYPs are listed below, based upon the latest information available as of this writing (5/30/2014).

<i>Planning Factor</i>	<i>Fiscal Year</i>		
	2014-15	2015-16	2016-17
COLA (DOF)	0.85%	2.19%	2.14%
LCFF Gap Funding Percentage (DOF)	28.06%	30.39%	19.50%
STRS Employer Rates (May Revision)	9.50%	11.10%	12.70%
PERS Employer Rates (PERS Board / Actuary)	11.77%	12.60%	15.00%
Lottery - unrestricted per ADA*	\$126	\$126	\$126
Lottery - Prop 20 per ADA*	\$30	\$30	\$30

* Government Code 8880.5(a)(2) extended lottery funding based on the 2007-08 ROP ADA and Adult Education ADA through 2014-15. Under current law these two ADA counts will no longer be part of the lottery calculation for 2015-16 and beyond.

Additional guidance on budget and MYP planning can be found in the *Guidance for Adopted Budgets and MYPs* sections.

Summary of Material Changes

- *Proposition 98 Revenues*: Updated to reflect May Revision forecasts for 2012-13 through 2014-15, and the Proposition 98 anti-spiking provision impact on 2013-14.
- *LCFF*: Updated to reflect May Revision projections for gap, COLA, and Economic Recovery Target (ERT) threshold, along with updates on the Fiscal Crisis and Management Assistance Team (FCMAT) LCFF Calculator.

- *Local Control Accountability Plan (LCAP)*: Streamlined to focus on key compliance requirements, with a reference to the California County Superintendents Education Association (CCSESA) LCAP Approval Manual and LCAP expenditure audit requirements.
- *California Longitudinal Pupil Achievement Data System (CALPADS)*: Updated to reflect May Revision proposals related to Provision 2 and 3 schools, and the possible substitution of 2014-15 unduplicated counts for 2013-14 in the three-year rolling average for LCFF.
- *Adult Education*: Updated to reference 2014-15 maintenance of effort (MOE) audit requirements.
- *Independent Study*: Updated to reflect the May Revision proposal.
- *Regional Occupational Centers/Programs (ROC/P)*: Updated to reference 2014-15 MOE audit requirements.
- *Transportation*: Updated to reference 2014-15 MOE audit requirements.
- *Cash Management*: Updated to reflect May Revision deferral elimination proposal.
- *Categoricals*: Updated to address expiration of Lottery funding for ROP and Adult Education ADA in 2015-16 and beyond.
- *Medi-Cal Administrative Activities (MAA)*: Updates on current program status.
- *Special Education*: Updated to address instructional materials for the visually impaired and the deficit applied to the 2013-14 apportionment for AB 602.
- *Audit Requirements*: Updated to reflect new 2014-15 audit procedures for LCAP expenditures, MOE, and K-3 grade span adjustment (GSA).
- *Retirement*: Updated to reflect proposed future rates for CalSTRS and CalPERS, and to provide information on Governmental Accounting Standards Board (GASB) Statement 68 implementation.
- *Standardized Account Code Structure (SACS) Changes*: New section to address California Department of Education (CDE) guidance regarding LCFF related SACS changes.

Proposition 98 Revenues

Fiscal Year 2012-13	Projected Statewide Revenue	Proposition 98 Calculation	Property Tax Portion of Proposition 98	State Budget Portion of Proposition 98	Non- Proposition 98 Budget	Ending Balance
Jan 2013	\$ 95.4	53.6	16.1	37.5	55.4	.8
May 2013	98.2	56.5	16.1	40.4	55.2	.9
Adopted	98.2	56.5	16.1	40.4	55.2	.9
Jan 2014	99.9	58.3	16.1	42.2	54.4	2.3
May 2014	99.4	57.8	16.1	41.7	54.4	2.4

(all numbers in billions)

Fiscal Year 2013-14	Projected Statewide Revenue	Proposition 98 Calculation	Property Tax Portion of Proposition 98	State Budget Portion of Proposition 98	Non- Proposition 98 Budget	Ending Balance
Jan 2013	\$98.5	56.2	15.4	40.9	56.8	1.6
May 2013	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
Jan 2014	100.1	56.8	15.9	40.9	57.6	3.9
May 2014	102.2	58.3	15.6	42.7	58.0	3.9

(all numbers in billions)

Fiscal Year 2014-15	Projected Statewide Revenue	Proposition 98 Calculation	Property Tax Portion of Proposition 98	State Budget Portion of Proposition 98	Non- Proposition 98 Budget	Ending Balance
Jan 2014	\$106.1	61.6	16.5	45.1	61.7	3.2
May 2014	107.0	60.9	16.4	44.5	63.3	3.1

(all numbers in billions)

The May Revision projects General Fund revenues for the period from 2012-13 through 2014-15 to be \$2.4 billion higher than the January forecast. However, because of the timing of the revenue changes and their interaction with Proposition 98 maintenance factor requirements, the total Proposition 98 guarantee only increases by \$242 million over the same period. For the budget year, Proposition 98 is projected at \$60.9 billion, down approximately \$700 million from the January forecast.

As was the case at this time last year, the Department of Finance's (DOF) revenue projections are more conservative than the Legislative Analyst's Office's (LAO) projection.

Guidance for Second Interim Reports

Situational Guidance to Districts and Multi-year 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 2014-15 Adopted Budget.

Key MYP Considerations under the LCFF:

- The LCFF is still new and unfamiliar, which adds increased uncertainty in assessing risks, especially since districts have not yet received external validation of their LCFF calculations through a CDE certification.
- 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 English language learner, low income and foster youth 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 in 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 the 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 FCMAT's Fiscal Health Risk Analysis Key Fiscal Indicators tool (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 is projected in 2015-16 and 2016-17. 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 on the LCAP while still maintaining fiscal flexibility and solvency.

Notwithstanding the improving revenue outlook, districts should be cautious about making ongoing expenditure commitments based on 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.

Multi-year Projections

Districts are required by law to project revenues and expenditures for the budget year and the two subsequent fiscal years. To make multi-year projections, districts rely on a variety of assumptions and sources of information available at the time the projection is created.

The further into the future a projection is made, the greater the likelihood 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 the LCFF has in some ways increased the uncertainty for districts because it is new and unfamiliar, and it has a varying impact from district to district.

MYPs have always been challenging, but districts are faced with a new set of challenges related to MYPs in the current environment, in particular:

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 LCFF and LCAP requirements 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 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 district 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 minimum proportionality percentage (MPP) requirements
- Costs associated with meeting adequate progress toward class size requirements for the LCFF K-3 grade span adjustment (GSA)
- Costs associated with maintaining programs that were previously funded with categorical funding and now must be funded with unrestricted funds if they are to continue. Examples

include instructional materials, 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 to rise as high as 20% for the schools pool by 2020. Districts are advised to incorporate the actuarially projected rates into their MYP. See the *Retirement* section for details
- Increases in STRS contribution rates - The May Revise proposes immediate action to address the STRS unfunded liability in 2014-15. While the Legislature has subsequently proposed an alternate implementation plan, districts are advised to incorporate the rates proposed in the May Revise into adopted budgets and MYPs until a final agreement is reached between the Governor and the Legislature
- Increased administrative costs associated with the Affordable Care Act (ACA) including staff time and possible penalty fines and taxes
- Depending on district bargaining agreements and employment practices, possible increased costs associated with the ACA requirements to extend coverage to all full-time equivalent employees
- Costs associated with implementing Common Core State Standards and Smarter Balanced Assessments
- Requirements to restore routine restricted maintenance 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 2014-15, 2015-16 and 2016-17 are as follows:

Year	2014-15	2015-16	2016-17
Gap Funding	28.06%	30.39%	19.50%

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. The DOF builds sophisticated economic models based on the available data and makes 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 on data that is outside the control of the administration, such as forecasts for the national and state economy. The DOF's 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 the LCFF.

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

Based on the information above, it would appear the DOF's projections for LCFF gap funding percentages are reasonable and supportable.

The 2014-15 gap percentage is based on the approximately \$4.5 billion for LCFF implementation included in the May Revise. As of this writing, the FCMAT LCFF Calculator version 15.2a is pre-loaded with the DOF gap factors from the January budget proposal, and FCMAT will likely quickly release an update. In the meantime districts can change the gap factors to the DOF's revised projections. Districts can also 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 toward 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 based on the most recent gap percentage calculated by the DOF 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) addresses other LEA specific situations. In addition, the *Funding Outside of LCFF* section of this document (and subsections) contains 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 English language learner, low income and foster youth counts, and the percentage of implementation (gap) funding.

Upon full implementation of the LCFF, year-to-year funding changes will be the result of ADA growth or decline, COLAs, and unduplicated English language learner, low income and foster youth 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. Senate Bill (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 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, and numerous reasonable models are available for consideration. Examples included:

- The Government Finance Officers Association (GFOA) 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 school districts in recent years
- School Services of California (SSC) 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 balances during each of the twelve months

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

- Protection against the expiration of parcel taxes

This is not an exhaustive list. Of all the reasons for carrying higher than minimum reserves, 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 in recent years. 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 multi-year 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.fcmat.org/LCFF/LocalControlFundingFormulaResources) 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:

- Average Daily Attendance (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 0.85%, 2015-16 COLA at 2.19% and the 2016-17 COLA at 2.14%
- 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 28.06%; estimated 2015-16 gap funding is 30.39%; estimated 2016-17 gap funding is 19.50%

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, and 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 stated below. The CDE recently revised the estimate of the 90th percentile from \$14,000 to \$12,750. This amount will be certified at P-2:

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 provided \$2.1 billion toward first-year implementation. The Governor's 2014-15 May Revision proposal continues to pledge \$4.5 billion for LCFF implementation, which would be sufficient to fund an estimated 28.06% 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.

Begin by entering P-2 ADA and ADA by grade span for the prior year. ADA is funded on the greater of current or prior year ADA. The LCFF Calculator will make this determination.

Under current language of the LCFF, non-mandatory ADA served in county operated programs is 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 county office of education (COE). Under the LCFF, apportionments generated by the county operated ADA remains with the district and will need to be locally transferred to the COE.

Calculating the LCFF

Each district and charter school is uniquely affected by the LCFF, especially during transition. The calculator is constructed for all types of districts, including basic aid and necessary small schools, as well as charter schools, including newly operated charters. It provides input fields to incorporate year-to-year changes in COLA, ADA, property taxes, unduplicated counts and LCFF implementation (gap funding

percentages). Additional features include K-3 GSA conditional apportionment, ERT payments and graphical demonstrations of multi-year funding. Finally, the calculator incorporates the minimum state aid calculations of the LCFF. See the LCFF Calculator section for more information.

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 development team includes representatives from the California Department of Education (CDE), the Department of Finance (DOF), and the State Board of Education (SBE) to ensure the calculator accurately reflects current LCFF legislation.

The most recent version of the LCFF Calculator has been posted to the FCMAT website at www.fcmat.org. Version V.15.2a of the calculator incorporates proposed legislation from the LCFF technical cleanup trailer bill and reflects the most recent thinking of the FCMAT, the CCSESA External Services Subcommittee (ESSCO) working group, the DOF, the CDE and the SBE related to creating revenue estimates, multi-year 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 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 necessary small schools, as well as 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 multi-year funding. The calculator also incorporates the minimum state aid calculations of the LCFF.

Version 15.2a of the LCFF Calculator incorporates the following major changes:

- Updated the Revenue Limit and categorical auto fill information with 2012-13 Annual certifications (February 2014)
- Revised the Grade Span Adjustment yearly progress calculation per Title 5 CCR §15498.1(g) as approved by the State Board of Education
- Simplified in-lieu of property tax entry for basic aid school districts with charter schools
- Added the ability to generate LCFF revenue estimates for charter agencies that started operations after 2012-13
- Expanded the assumptions page with funding by grade span at Target and Necessary Small School funding selection information.

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 0.85%, the 2015-16 COLA as 2.19%, and the 2016-17 COLA as 2.14%. The Situational Guidance and Multi-year 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 14, 2014 meeting. See the *LCAP / Supplemental and Concentration Regulations* section for more details.

The Superintendent of Public Instruction (SPI) 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 May Revision proposes changes to the way unduplicated pupil counts are calculated. Under current law regarding 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.

The May Revision proposes two changes to the current methodology for determining unduplicated pupil counts in the Local Control Funding Formula.

1. Requires the SPI to revise three-year averages of unduplicated pupils for each LEA using 2014-15 student data in place of 2013-14 data, **IF** doing so increases the LEAs rolling average.
2. Authorizes Provision 2 and Provision 3 schools to establish base year eligibility for Free or Reduced price meals no less than once every four years, and requires annual updates to Free or Reduced price meal counts for newly enrolled or disenrolled students in non-base years.

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, 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 (TK), to an average by school site of no more than 24:1 (or a locally bargained alternative ratio) at full implementation of the LCFF.

During implementation of the LCFF, and as a condition of receipt of this adjustment, districts will be required to either:

1. Have a class size ratio of 24:1 or less at each school site in 2013-14 and maintain that ratio in the future,
2. Collectively bargain an alternative class size ratio for this grade span, or
3. Show adequate progress toward meeting the goal of 24:1 each year until full implementation of the LCFF.

Charter schools are not subject to this condition of apportionment.

Method for Making “Progress Toward”

Districts are required to demonstrate adequate progress toward reducing class sizes to 24:1, if not already there or if they do not have a collectively bargained alternative ratio. 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 = $30 - 0.7 = 29.3$. **However the class size ratio must be rounded to the nearest whole or half, which, in this example, results in a class size ratio of 29.5.**

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 GSA 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, districts should 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.

If a school district makes more than the necessary progress in a given year, it **will not** accelerate the requirement to make progress towards 24:1. The prior year class size target for each school site will be the starting point for a given year.

For 2014-15, procedures for determining whether the district meets the new requirements will be included in the state audit guidelines. 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 MOE 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 it 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. **MOE compliance will be audited for the 2014-15 fiscal year. See the *Audit Guide* section for details.**

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.

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. Accordingly, LEAs are expected to develop budgets and plans for 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 educational investments while maintaining fiscal solvency and flexibility.

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 (EC 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. (EC 42127 and 52062).
- The adopted budget should include expenditures necessary to implement the LCAP 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 it with the county superintendent of schools.

Calculating the Minimum Proportionality Percentage (MPP)

The MPP includes three data sources: LCFF targets, prior year expenditures, and statewide implementation percentage (gap percentage).

For Districts and Charters:

Estimate the total **2014-15 LCFF Phase-in Entitlement**, then

1. Estimate the LCFF supplemental and concentration grant targets, at full implementation.

2. Determine prior year expenditures to support unduplicated pupils. For 2013-14, 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 DOF's gap funding percentage 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 Phase-in Entitlement, excluding the add-ons for Targeted Instructional Improvement Grant (TIIG) and Home-to-School Transportation**.
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 TIIG and H-S Transportation.

The LCFF Calculator, Version 15.2a (released February 12, 2014), includes this minimum proportionate percentage calculation as a separate tab. The only data entry required is the prior year expenditures (Step 2 of the above procedure).

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.

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 for all fund sources used to support actions and services. Note that no changes to California School Accounting Manual (CSAM) or 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 SBE.
2. The budget includes expenditures sufficient to implement the specific actions and strategies included in the LCAP.
3. The LCAP adheres to the expenditure requirements for funds apportioned for English learners, low income and foster youth students.

The complete process for county office approval of district LCAPs, as approved by the CCSESA Board of Directors, is outlined in the [CCSESA LCAP Approval Manual](#), located at www.ccsesa.org.

LCAP Uniform Complaint Procedures (UCP)

The LCAP carries its own Uniform Complaint Procedure, as stated in [EC 52075](#). If a filed complaint has merit, the LEA shall provide a remedy to all affected pupils, parents, and guardians. Local decisions as to whether the complaint has merit may be appealed to the SPI.

Information regarding the requirements of the LCAP UCP shall be included in the annual notification distributed to pupils, parents and guardians, employees, and other interested parties pursuant to [Section 4622 of Title 5 of the California Code of Regulations](#) or any successor regulation.

School districts, county superintendents of schools, and charter schools shall establish local policies and procedures to implement the provisions of this section on or before June 30, 2014.

LCAP Audit Procedure

For 2014-15, the Education Audit Appeals Panel (EAAP) adopted an audit procedure to check on key LCAP compliance requirements and to test that expenditures were made pursuant to an adopted LCAP. See the *Audit Requirements* section for details.

LCAP Summary

Local control and 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.

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.

In CALPADS [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 attend a COE operated program and students identified through a statewide foster youth match of records from the California Department of Social Services.

LEAs may determine whether a student meets the income requirements for National School Lunch Program (NSLP) eligibility using an alternative process to the NSLP application process, and may submit NSLP program records to CALPADS for these students. Sample alternative forms can be accessed on the CDE and California School Information Services (CSIS) websites.

Provision 2 and 3 Schools

Multiple school districts with Provision 2 and 3 schools reported challenges with collecting alternative forms that resulted in lower unduplicated pupil percentages than in prior years' CALPADS data. The Governor proposes the following change to the current methodology for determining unduplicated pupil counts in the LCFF that will address Provision 2 and 3 school concerns:

Authorize Provision 2 or 3 schools in the National School Lunch Program to establish base-year student eligibility for free or reduced-price meals no less than once every four years; in alignment with national school lunch program guidelines. However, schools must annually update free and reduced meal counts for newly enrolled or disenrolled students in the intervening years.

Other Proposed Changes Included with the May Revision

The May Revision proposes to replace the rolling average methodology for calculating the average percentage of unduplicated pupils so that a school district's or charter school's unduplicated percentage of pupils for the 2014-15 fiscal year is used in place of its unduplicated percentage for the 2013-14 fiscal year if doing so would yield an overall greater percentage of unduplicated pupils.

End of Year Submission

The 2013-14 End-of-Year (EOY) data submission window opened Monday, May 12, 2014, and ends on Friday, July 18, 2014. There will be **no amendment window for the 2013-14 EOY submissions** so necessary changes can be made to the CALPADS data structure and file formats.

CALPADS Offline for July Release Implementation

CALPADS will be taken offline at 6 p.m. on Friday, July 18, 2014, and will remain offline until Monday, July 28, 2014, to implement changes in the CALPADS file formats and to improve data quality and data submission processes. When CALPADS comes back online on Monday, July 28, 2014, CALPADS will **only** accept the new file formats. A new CALPADS File Specifications document (effective July 1, 2014) is posted via the System Documentation link on the CDE [CALPADS](#) Web page.

County Operated Enrollment

Students served in county programs who are otherwise funded through their district of residence under the LCFF will ultimately be reported by district of residence within CALPADS in the “*district of geographic residence*” field. **COEs and charter schools operating county programs will be required to populate the “interdistrict transfer” field to determine the counts of disadvantaged students enrolled in COEs that will be attributed to the LEA of geographic residence for LCFF calculations.**

County and Authorizing LEA Reports

COEs are required to review each district’s CALPADS report for reasonableness and discuss potential issues with the LEA during the amendment window. In the future COEs may review the CALPADS report for reasonableness based on prior year data. COEs are not required to certify this report.

Special Circumstances and the LCFF

Adult Education

Adult education funds continue to be folded into the LCFF and are intended to be flexible for any educational purpose. However, the enacted 2013-2014 budget changed provisions for adult education from the status quo to maintenance of effort model for two years. For the 2013-14 and 2014-15 fiscal years only, the district or county office of education are required to expend no less for the adult education program than the amount spent in the 2012-13 fiscal year. **MOE compliance will be audited for the 2014-15 fiscal year. See the *Audit Requirements* section for details.**

The 2013-14 budget also required 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 are to 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>.

While silent on this program in the May Revision, 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 under way, 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 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. 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 their county offices of education in projecting their current and future basic aid status.

Charter Schools

LCFF for charters continues to be largely identical to district funding, except 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. Newly operational charter schools with no prior year funding will use the lesser of the charter school's LCFF target entitlement per ADA; or, the prior year per ADA funding rate of the district in which the charter school resides to calculate the charter school's LCFF floor. If physically located in more than one district, the district with the higher prior year per ADA funding rate is used. 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 to 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. See section above for newly operational charter schools with no prior year funding.
- Under the prior block grant system (EC 47634.1), charter schools received funds in lieu of EIA in a general purpose 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 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. The following table summarizes charter schools' LCAP requirements:

LCAP Requirements	Charter Schools
Eight State Priorities	Only include those priorities that apply for the grade levels served or the nature of the program operated
Consultation	Teachers, pupils, principals, administrators, parents, other school personnel
Review and Comment	No review and comment requirements
Use of Supplemental and Concentration Grants	No minimum threshold to use charterwide, must simply provide justification
Adoption	No public meeting required, but encouraged
Posting Requirements	No posting of LCAP by charter schools or their chartering authorities required, but encouraged
Approval	Must be submitted to chartering authority and county superintendent, but not approved by either party

COE Revenue Transfers

Traditionally, revenue limit funds 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.

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 and the associated LCFF revenue will be apportioned to the district of residence.

The LCFF provides if a district enrolls its students in a COE program, the district will need to transfer the associated LCFF revenue for those students to the COE. Previously this process was automated at the state level by the CDE. The CDE is working with the DOF to provide a future process for a transfer at the state level. The CDE is unable to facilitate these automated transfers under the LCFF for the 2013-14 year and intends to have an automated process in place by the end of 2014-15.

For the 2013-14 advance apportionment, which is based on the prior year, funding for county office funds transfers are equal to 2012-13 P-2 totals. Because the changes for LCFF apportionments had not yet been made, the 2013-14 advance apportionment maintains the previous transfer of 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. The CDE issued a letter to clarify this change in revenue transfers and the impact to LEAs cash flow.

Independent Study

The May Revision proposes a series of changes to the Governor's January proposal, including:

- Eliminating the requirement that certificated teachers and students meet weekly to assess if a student is making satisfactory academic progress in a school site-based blended learning independent study program.
- Providing schools with the ability to offer site-based blended learning, utilizing a universal learning agreement for all students enrolled in the same course or courses.

- Funding students enrolled in course-based independent study programs on the basis of average daily attendance, and not enrollment, and applying the statewide excused absence rate to average daily attendance (ADA) claimed by local educational agencies.

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). **MOE compliance will be audited for the 2014-15 fiscal year. See the *Audit Guide* section for details.**

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 for these funds was released on January 21, 2014, and applications were due March 28, 2014. See <http://www.cde.ca.gov/fg/fo/r17/ccpt14rfa.asp> for details. Award announcements are expected in June 2014.

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

Cash Management

The Governor’s 2014-15 May Revision calls for the acceleration of \$742.2 million in interyear budgetary deferrals attributable to fiscal years 2012-13 and 2013-14. The acceleration is offset by a reduction of \$742.2 million in ongoing Proposition 98 for proposed 2014-15 deferral repayments. The changes brought forth by

the 2014-15 May Revision result in no change for LEAs from the 2014-15 January Budget Proposal since all intra- and interyear deferrals are still proposed to be fully eliminated in 2014-15.

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.

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:

- April 2014 – July 14, 2014
- May 2014 – July 14, 2014
- June 2014 – July 24, 2014

County offices may want to recommend the following next steps for school districts:

- Revise 2013-14 and 2014-15 cash flow projections to reflect the appropriate cross fiscal year deferral reductions.
 - 42.2% 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 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 the 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 A 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 0.85%)
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 0.85%)
0000	Assessments
0000	American Indian Early Childhood Education Program (2014-15 COLA 0.85%)
7365	Foster Youth Services Programs (2014-15 COLA 0.85%)
7220	Partnership Academies
7400	Quality Education Investment Act
6500, 6510	Special Education (2014-15 COLA 0.85%)
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, with the exception of the inclusion of ROP ADA and Adult Education ADA. Government Code 8880.5(a)(2) extended lottery funding based on

the 2007-08 ROP ADA and Adult Education ADA through 2014-15. **Under current law these two ADA counts will no longer be part of the lottery calculation for 2015-16 and beyond. This could mean a significant drop in lottery funding for some agencies.**

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 and 2014-15.

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 \$28 per ADA for grades K-8 and \$56 per ADA for grades 9-12 and \$1 per countywide ADA (which is defined as the aggregate number of ADA within the county attributable to all school districts, charter schools, as well as the schools operated by the county superintendent of schools). **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, BTSA, and 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 Early Childhood Education (ECE)

- **General Child Care (CCTR):** \$478 million. Slight decrease to CCTR programs (\$4.9 million).
- **California State Preschool (CSPP):** \$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 (APP):** \$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 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, the 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.

Below are links for additional information:

SACS Query profile:

<http://www2.cde.ca.gov/sacsquery/pcadetail.asp?pca=25230&resourcecode=7405>

Funding Letter:

<http://www.cde.ca.gov/fg/fo/r14/commoncore13apptltr2.asp>

Funding Profile:

<http://www.cde.ca.gov/fg/fo/profile.asp?id=3434>

Funding Results:

<http://www.cde.ca.gov/fg/fo/r14/commoncore13result.asp>

Frequently Asked Questions:

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

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. Individuals with Disabilities Education Act (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 budget development and multi-year 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.

The CDE and the CDSS are still working to amend the initial MOU to enable the weekly redisclosure 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

Since June 2012, all California School-Based Medi-Cal Administrative Activities (MAA or SMAA) claims have been deferred due to the Centers for Medicare and Medicaid Services (CMS) review of SMAA invoices from three local education agencies (LEAs). The Department of Health Care Services requested that California be allowed to make interim claims, and CMS approved the request only for 2012-13.

DHCS collaborated with the local educational consortiums (LECs) and local government agencies (LGAs) to develop the CMS-required Random Moment Time Study (RMTS) methodology. However, due to concerns

raised by various school-based associations, this process took longer than anticipated and California was unable to finalize the new plan prior to the 2013-14 claiming year. DHCS submitted a draft implementation plan to CMS in October 2013. To ensure LEAs could continue to claim SMAA reimbursement, DHCS requested California be allowed to interim claim for 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 draft 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. DHCS posted the December 2013 draft of the 2014-15 California SMAA Manual, with the RMTS plan, and revised DHCS Milestones to CMS Submission. DHCS reported that submission of required documentation to CMS was completed and that LECs/LGAs could continue the request for proposal (RFP) process to select one single type of RMTS software for LECs and one for LGAs.

On February 21, 2014 DHCS posted the following announcement regarding the SMAA Implementation Plan for 2014-15 and a request for one additional year of interim claiming:

Due to concerns raised by school districts and other organizations, the California Health and Human Services Agency and the Department of Health Care Services (DHCS) have made a request to the federal Centers for Medicare and Medicaid Services (CMS) to delay the implementation of the revised School-Based Medi-Cal Administrative Activities (SMAA) program implementation plan effective date, from July 1, 2014 to July 1, 2015 and allow for one additional year of interim claiming. DHCS will inform you of the outcome of such request as soon as we hear back.

As of this writing, the DHCS has not informed LEAs, LECs, and LGAs of the 2014-15 SMAA program status. LECs and LGAs have completed their respective request for proposal (RFP) processes for RMTS. LEAs and their SMAA program consultants/vendors continue to work diligently with LECs and LGAs to meet all DHCS and CMS requirements to release LEAs from the deferral status and to prepare for 2014-15. Districts should contact their local LEC/LGA coordinator if they have questions about the RMTS methodology or the process under way in California.

Proposition 39 – California Clean Energy Jobs Act

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 (FRPM) allotment for LEAs with 100 or less prior year P-2 ADA, no less than \$50,000 plus FRPM allotment for LEAs with more than 100 to 1,000 prior year P-2 ADA, and no less than \$100,000 plus FRPM allotment for LEAs with more than 1,000 but less

than 2,000 prior year P-2 ADA. In addition, LEAs with 1,000 or less prior year P-2 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 outlining 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 (RDA)

Assembly Bill (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 0.85% COLA, which is estimated to be \$4.39 per ADA. The estimated deficit in special education funding is 4.1%.

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.

In January, the Governor’s proposed language would have authorized the CDE to assess a fee on LEAs that acquire accessible instructional materials for the visually impaired through the CDE clearinghouse. At the May Revision, this proposal was withdrawn.

Other Issues

Audit Requirements

The Enacted Budget and subsequent cleanup legislation called for multiple new or revised audit requirements. Proposed audit procedures to implement the legislative requirements are 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).

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.

EAAP adopted emergency regulations to effect changes to the 2014-15 Audit Guide on May 19. 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 2014-15 changes to the Office of Administrative Law (OAL) and simultaneously to EAAP by no later than 5:00 p.m. on Monday, June 9, 2014.

Details of the adopted 2013-14 changes and proposed 2014-15 changes are 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.
- 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 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, has collectively bargained an annual alternative average class enrollment, 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 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 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 Proposed Procedures

- **Local Control and Accountability Plan** – New procedure to verify that the LEA made expenditures aligned with a properly adopted LCAP. It is important to note 1) the auditors will only test expenditures on actions an LEA attests having actually expended funds on after the fact, and 2) there is no requirement that documentation of expenditures be based on any particular general ledger coding. The complete procedure is reproduced below:

Audit Procedures (a) through (d) apply to all LEAs including charter schools, and (e) and (f) do not include charter schools:

- a) Obtain a copy of the local educational agency's approved local control and accountability plan or annual update to the local control and accountability plan for the audit year.*
 - b) Select a sample of actions or services the LEA described in Sections 3A and 3B of the plan that the LEA identifies as having actual expenditures.*
 - c) Select a sample of actual expenditures for actions or services identified pursuant to (b) and examine supporting documentation to determine whether the expenditures supported the actions or services.*
 - d) If the expenditures selected pursuant to (c) did not support the identified actions or services, so state in a finding.*
 - e) For county offices of education and school districts only, verify the LEA:*
 - 1) Presented the local control and accountability plan or approved annual update to the parent advisory committee in accordance with Education Code Section 52062(a)(1) or 52068(a)(1), as appropriate.*
 - 2) If applicable, presented the local control and accountability plan or approved annual update to the English learner parent advisory committee, in accordance with Education Code Section 52062(a)(2) or 52068(a)(2), as appropriate.*
 - 3) Notified members of the public of the opportunity to submit comments regarding specific actions and expenditures proposed to be included in the local control and accountability plan or approved annual update in accordance with Education Code Section 52062(a)(3) or 52068(a)(3), as appropriate.*
 - 4) Held at least one public hearing in accordance with Education Code Section 52062(b)(1) or 52068(b)(1), as appropriate.*
 - 5) Adopted the local control and accountability plan or approved annual update in a public meeting in accordance with Education Code Section 52062(b)(2) or 52068(b)(2), as appropriate.*
 - f) If the county office or school district was not in compliance with any of the requirements listed in (e) include a finding in the Findings and Recommendations section of the audit report.*
- **K-3 GSA** – New procedure to verify that the LEA has made adequate progress toward the 24:1 K-3 average class size. It is important to note the procedure was modified to make sure that districts will not be penalized for making *more* than adequate progress, as the measurement of progress will always be made based on total gap percentage funded through the current year relative to the 2012-13 average class size base. The complete proposed procedure is reproduced below:

(a) If the school district reported average daily attendance for the current year for kindergarten or grades 1 to 3, then select a representative sample of school sites that have pupils in those grades and verify the school district's calculation of the average class enrollment for each sampled school sites for the school year 2012-13.

(b) If the school district reported average daily attendance for the current year for kindergarten or grades 1 to 3, and can provide documentation that the bargaining unit and school district have agreed to an alternative pursuant to Education Code section 42238.02(d)(3)(B) or (C) that is applicable to the current year; then no further procedures in this section need to be performed (for additional information on K-3 Grade Span Adjustments, see California Department of Education website at <http://www.cde.ca.gov/fg/aa/lc/lcffffaq.asp#K3GSA>).

(c) If the school district reported average daily attendance for kindergarten or grades 1 to 3 and cannot provide documentation that the bargaining unit and school district have agreed to an alternative pursuant to Education Code section 42238.02(d)(3)(B) or (C) that is applicable to the current year, for 2014-15 select a representative sample of school sites that have pupils in those grades for the current year and perform the following (for additional information on K-3 Grade Span Adjustments, see California Department of Education website at <http://www.cde.ca.gov/fg/aa/lc/lcffffaq.asp#K3GSA>):

(1) If the average class enrollment in 2012-13 was 24 pupils or less, then:

(A) Verify the mathematical accuracy of each school site's current year "average class enrollment" as defined in Section 15498.1(f).

(B) Select a representative sample of classes in kindergarten and grades 1, 2, and 3, inclusive of combination classes, and verify the current year "active enrollment count" as defined in Section 15498.1(d) and trace to supporting documentation.

(2) If the average class enrollment in 2012-13 was more than 24 pupils, then:

(A) Verify the mathematical accuracy of the school site's calculation of the "maximum average class enrollment" as defined in Section 15498.1(g) for both the prior and current years.

(B) Verify the mathematical accuracy of each school site's current year "average class enrollment" as defined in Section 15498.1(f).

(C) Select a representative sample of classes in kindergarten and grades 1, 2, and 3, inclusive of combination classes, for the current year and verify the "active enrollment count" as defined in Section 15498.1(d) and trace to supporting documentation.

(d) If the testing in (c)(1) resulted in any of the school sites "average class enrollment" exceeding 24 pupils, or if the testing in (c)(2) resulting in any of the school sites "average class enrollment" exceeding the "maximum average class enrollment" include a finding in the Findings and Recommendations section of the audit report showing the estimated amount of Kindergarten and Grades One Through Three Grade Span Adjustment received as disallowed.

- **Maintenance of Effort** – New procedures are proposed for 2014-15 only to test for compliance with MOE requirements for ROC/P, Adult Education, and Transportation. The

procedures are identical in all three cases except only the ROC/P procedure allows a county office to count the expenditures of districts in its county, and vice versa. The complete ROC/P procedure is reproduced below:

(a) For the 2014-15 fiscal year only, determine if the LEA had any regional occupational centers or programs expenditures as specified in subdivision (k) of Education Code section 2575 or paragraph (7) of subdivision (a) of Education Code section 42238.03 in the 2012-13 fiscal year.

(b) If the LEA had regional occupational centers or programs expenditures in the 2012-13 fiscal year pursuant to statute cited in subdivision (a), request documentation to determine if the LEA expended at least that amount, or the amount of revenue received for that purpose in 2012-13 if that is less, in the 2014-15 fiscal year as required by statute cited in subdivision (a). As authorized by statute cited in subdivision (a), a county office of education may include expenditures made by a school district within the county, and a school district may include expenditures made by its county office of education within the school district. For information on 2012-13 regional occupational centers or programs funding, see California Department of Education website funding exhibits at <http://ias.cde.ca.gov/apportionment/ias.aspx?schoolyearid=2012&RptType=P-2&CertType=Non>.

(c) If the LEA was not in compliance with the regional occupational centers or programs expenditure requirements in statute cited in subdivision (a), report the noncompliance as a finding in the Findings and Recommendations section of the audit report.

Note: Authority cited: Section 14502.1, Education Code. Reference: Sections 2575, 14502.1, 14503, 41020, and 42238.03 Education Code.

- **SB 379 Middle College ADA** – New procedure proposed to test ADA compliance with Education Code Section 46146.5 for middle college high schools.
- **Common Core** -Modification of the 2013-14 procedure to verify the required expenditure report was submitted, and to disallow expenditures if the LEA did not comply with plan adoption requirements 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 day's 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.

Retirement

The Governmental Accounting Standards Board Statement No. 68 (GASB 68) reporting requirements take effect for the 2014-15 financial statements for state and local government employers. Districts will need to recognize their proportionate share of the net pension liability (NPL) for both CalSTRS and CalPERS retirees. This number is determined by the LEA based on information provided by the retirement systems and is included in the annual audit report. Districts should discuss with their auditors how they will comply with GASB 68.

Further information regarding GASB 68 compliance can be found at the following links:

- For CalPERS: <http://www.calpers.ca.gov/index.jsp?bc=/employer/actuarial-gasb/accounting-standards.xml&pat=SCER>
- For CalSTRS: http://www.calstrs.com/sites/main/files/file-attachments/fs_gasb_0512.pdf

To address the unfunded liability, both retirement systems will need to increase the rates charged to school employers. For CalSTRS, there is a proposal to also increase rates for employee and state contributions.

CalPERS

The CalPERS Board adopted changes to the actuarial assumptions to be effective June 30, 2015. The changes result in a projected increase to the employer contribution rates for 2015-16 and for the next five years. The CalPERS Circular Letter 200-012-14 dated March 10, 2014 provided projected rates for 2014-15 through 2020-21. At the April 14, 2014 meeting, the Board set the rate of 11.771% for employer contributions for 2014-15.

Districts are advised to plan for these proposed increases in developing MYPs.

CalPERS Actual and Projected Rates							
2013-14 Actual	2014-15 Actual	2015-16 Projected	2016-17 Projected	2017-18 Projected	2018-19 Projected	2019-20 Projected	2020-21 Projected
11.442%	11.771%	12.6%	15.0%	16.6%	18.2%	19.9%	20.4%

Employee rates will continue at 7% for classic members, those who were members on December 31, 2012, and at 6% for new members.

The CalPERS actuarial office will compute GASB 68 reporting valuations for employers for fiscal year 2014-15 beginning in fall 2015. Individual reports will be available to LEAs for a fee.

CalSTRS

The rates that employers and employees pay for the CalSTRS pension are determined by legislative action. In his May Revision, Governor Brown has proposed rate changes over the next seven years that will eliminate the unfunded liability for CalSTRS in approximately 30 years. Under the proposal, over the next three years the state contribution would increase from 3.04% to 6.33% and the employee contribution would increase from 8% to 10.25% for those who were members December 31, 2012 (2% at 60) and would increase to 9.21% for newer members (2% at 62).

Under the Governor's proposal, employer rates would increase from 8.25% to 19.1% over the next seven years. The rate for 2014-15 would be 9.5%, an increase of 1.25%. For 2015-16 through 2020-21, the employer rate would increase by 1.6% each year, to 19.1% in seven years.

Districts are advised to plan for these proposed increases in developing MYPs.

CalSTRS Actual and Proposed Rates

	<i>2013-14 Actual</i>	<i>2014-15 Proposed</i>	<i>2015-16 Proposed</i>	<i>2016-17 Proposed</i>	<i>2017-18 Proposed</i>	<i>2018-19 Proposed</i>	<i>2019-20 Proposed</i>	<i>2020-21 Proposed</i>
Employer	8.25%	9.5%	11.1%	12.7%	14.3%	15.9%	17.5%	19.1%
State	3.04%	3.45%	4.89%	6.33%	6.33%	6.33%	6.33%	6.33%
Member (2% at 60)	8.00%	8.15%	9.20%	10.25%	10.25%	10.25%	10.25%	10.25%
Member (2% at 62)	8.00%	8.08%	8.56%	9.21%	9.21%	9.21%	9.21%	9.21%

GASB Statement 67 established reporting assumptions for public pension plans. The assumptions required by GASB 67 differ from the assumptions adopted by the CalSTRS Board. When calculating proposals for funding the NPL in its pension fund, CalSTRS used an investment rate of return of 7.5% and calculated a funding shortfall of approximately \$74 billion. Under the GASB 67 formula, CalSTRS will need to use a blended rate of return of 4.85%. The smaller rate of return results in a NPL of \$167 billion for GASB reporting purposes.

CalSTRS has commissioned its external auditor to issue opinions on the NPL as calculated under the GASB 67 formula and on the proportionate share schedule for LEAs to use. The proportionate share schedule will be included with CalSTRS' financial statements for June 30, 2014. The LEA's proportionate share will be figured on payroll reported to the agency by June 30 and, due to the 45-day delay in payroll reporting, will differ from the LEA's own records for the fiscal year. CalSTRS does not plan to charge for the reports. The reports will be available on the CalSTRS.com website on the Contributions Account Portal.

SACS Changes

The following resource codes are obsolete beginning 2013-14 (last funded fiscal year 2012-13):

1300	Class Size Reduction K-3 (optional Resource)
2200	Continuation Education
2400	Juvenile Court/County Community Schools

2410	Juvenile Court
2420	County Community Schools
2430	Community Day Schools
7090	Economic Impact Aid (EIA) – State Compensatory Education (SCE)
7091	Economic Impact Aid – Limited English Proficient (LEP)
7250	School Based Coordinated Program (SBCP)
7230	Transportation: Home to School
7235	Transportation: School Bus Replacement
7240	Transportation: Special Education (Severely Disabled/Orthopedically Impaired)

The last fiscal year these resource codes will be available in the validation tables is 2015-16, to allow LEAs time to spend 2012-13 balances. LEAs should plan to spend carried over balances before spending unrestricted funding on the same programs or services.

The following object codes are obsolete for 2013-14 actuals:

3801	PERS Reduction, certificated positions
3802	PERS Reduction, classified positions
7615	From General, Special Reserve, and Building Funds to Deferred Maintenance Fund
8015	Charter General Purpose Entitlement – State Aid
8092	PERS Reduction Transfers
8425	Year-Round School Incentive
8915	To Deferred Maintenance Fund from General, Special Reserve, and Building Funds

The following object code is obsolete beginning 2014-15:

8434	Class Size Reduction, Grades K – 3
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Although Class Size Reduction (CSR) funding was consolidated into the LCFF, deferral funding was dispersed in 2013-14. Therefore, the revenue object code was left open to allow LEAs to record the CSR revenue.

Property Taxes

School districts are advised to use the 2013-14 P-2 local property tax estimates when preparing the 2013-14 July 1 Budget. When estimating local property taxes for 2014-15 and the two subsequent fiscal years, we recommend that school districts exclude the one-time redevelopment agency asset liquidation funds received in the 2013-14 fiscal year.

Interest Yield Projections

The current year-to-date gross yield (through January 2014) is 0.32% for the Orange County Educational Investment Pool. The Orange County Treasurer-Tax Collector forecasts a gross yield for 2013-14 of 0.33% based on the continued low short-term interest rates. We recommend that districts continue to estimate interest earnings at 0.33% for the budget year and the two subsequent fiscal years.

Appendices

Appendix A – List of Programs Folded into the LCFF

Appendix B – FCMAT Indicators

Appendix C – LCFF Acronyms

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"/>
<ul style="list-style-type: none"> Has the district identified a specific employee or department to be responsible for oversight of the charter? Has the charter school submitted the required financial reports? Has the charter school commissioned an independent audit? Does the audit reflect findings that will not impact the fiscal certification of the authorizing agency? Is the district monitoring and reporting the current status to the board to ensure that an informed decision can be made regarding the reauthorization of the charter? 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
15. Audit Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<ul style="list-style-type: none"> Did the district receive an audit report without material findings? Can the audit findings be addressed without impacting the district's fiscal health? Has the audit report been completed and presented within the statutory time line? Are audit findings and recommendations reviewed with the board? Did the audit report meet both GAAP and GASB standards? 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
16. Facilities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<ul style="list-style-type: none"> Has the district passed a general obligation bond? Has the district met the audit and reporting requirements of Proposition 39? Is the district participating in the state's School Facilities Program? Does the district have sufficient personnel to properly track and account for facility-related projects? Has the district met the reporting requirements of the Williams Act? Is the district properly accounting for the 3% Routine Repair and Maintenance Account requirement at the time of budget adoption? If needed, does the district have surplus property that may be sold or used for lease revenues? If needed, are there other potential statutory options? <ul style="list-style-type: none"> 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. 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>

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

17. General Ledger ☐ ☐ ☐

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

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

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

Total “No” Responses

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
• MPP	Minimum Proportionality Percentage
• 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