



Santa Clara County Office of Education

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County Superintendent of Schools

Informational Bulletin

For Santa Clara County Districts

District Business & Advisory Services
Judy Lee Kershaw: Director- DBAS: 408-453-6510

Bulletin: 18-011

Date: November 9, 2017

To: District Chief Business Officers
District Fiscal Directors
Charter School Administrators

From: Judy Lee Kershaw, Director- District Business Services

Re: SCCOE Common Message 2017-18 First Interim

The purpose of this bulletin is to provide districts with the Fiscal Year 2017-18 First Interim Common Message as prepared by the Business and Administration Steering Committee.

Since May 2008, the Santa Clara County Office of Education has enjoyed the efforts of the Business and Administration Steering Committee (BASC) who have provided the research needed to stay abreast of developments with a financial impact to school districts.

Once again, BASC, in collaboration with the Department of Finance (DOF), the State Board of Education, the California Department of Education (CDE) and the Fiscal Crisis and Management Assistance Team, as well as other colleagues in education have prepared the attached report of the most up-to-date information at the time of the Common Message writing, for use by local educational agencies (LEAs).

Introduction

This edition of the Common Message contains information related to the First Interim for 2017-18 and is intended to provide guidance for LEAs to use in developing their First Interim budget revisions. This document focuses *only* on material *changes* that have occurred since the adopted budget.

First Interim Budget Key Guidance

- Since the adoption of the 2017-18 budget this past June, general fund revenue collections are tracking very close to official estimates. Closing out the 2016-17 fiscal year, May and June revenue collections were down slightly (\$65 million) from estimates used in the adopted budget. General fund revenue collections for July through September revenues were a combined \$666 million (2.6%) above the estimates included in the enacted 2017-18 budget.
- The Governor continues to emphasize that general fund revenue growth in the current and budget years, if it occurs, will be increasingly dependent upon volatile capital gains collections. Accordingly, additional caution is necessary in negotiating multiple year agreements.
- STRS and PERS employer costs are projected to absorb significant portions of Local Control Funding Formula (LCFF) revenue growth that LEAs may receive. Districts with flat or declining enrollment need to be especially mindful, as expenses may grow more rapidly than revenues.

Significant Changes Since Budget Adoption

- The reserve cap was amended by SB 751, which was signed by Governor Brown on October 11, 2017.
- Prop. 39 (Energy Conservation) encumbrances and final report dates have been extended.
- In late November, the California School Dashboard will release the Fall 2017 accountability reports.
- The State Allocation Board approved \$125 million for the next Career Technical Education Facilities Program (CTEFP) funding cycle.

Planning Factors for 2017-18 and MYPs

Key planning factors for LEAs to incorporate into the 2017-18 First Interim budget and MYPs are listed below and are based on the latest information available.

Planning Factor	2017-18	2018-19	2019-20
COLA (Dept. of Finance – DOF)	1.56%	2.15%	2.35%
LCFF Gap Funding Percentage (DOF)	43.19%	66.12%	64.92%
LCFF Gap Funding (in millions)	\$1,362	\$1,883	\$1,407
STRS Employer Statutory Rates	14.43%	16.28%	18.13%
PERS Employer Projected Rates	15.531%	18.10%	20.80%
Lottery – Unrestricted per ADA	\$146	\$146	\$146
Lottery – Prop. 20 per ADA	\$48	\$48	\$48
Mandated Cost per ADA (one-time)	\$147.32	\$0	\$0
Mandate Block Grant for Districts – K-8 per ADA	\$30.34	\$30.34	\$30.34
Mandate Block Grant for Districts – 9-12 per ADA	\$58.25	\$58.25	\$58.25
Mandate Block Grant for Charters – K-8 per ADA	\$15.90	\$15.90	\$15.90
Mandate Block Grant for Charters – 9-12 per ADA	\$44.04	\$44.04	\$44.04
State Preschool Part-Day Daily Reimbursement Rate	\$28.32	\$28.32	\$28.32
State Preschool Full-Day Daily Reimbursement Rate	\$45.73	\$45.73	\$45.73
General Child Care Daily Reimbursement Rate	\$45.44	\$45.44	\$45.44
Routine Restricted Maintenance Account (Note: for LEAs receiving School Facility Bond funds, the RRMA requirement reverts to 3% the year following receipt of funds).	Greater of: Lesser of 3% or 2014-15 amount or 2%	Greater of: Lesser of 3% or 2014-15 amount or 2%	Greater of: Lesser of 3% or 2014-15 amount or 2%

Reserves

County offices continue to reinforce the need for reserves in excess of the minimum reserve for economic uncertainty. The required reserve for economic uncertainty represents only about a few weeks of payroll for most districts. The Government Finance Officers Association recommends reserves, at minimum, equal to two months of average general fund operating expenditures, or about 17%. When determining an appropriate level of reserves, districts should consider multiple external and local factors including but not limited to:

- State economic forecasts and volatility

- Ending balance impact of various district enrollment scenarios
- Forecasted revenue growth versus projected expenditure increases
- Cash flow requirements and the relationship between budgeted reserves and actual cash on hand
- Need and expense of short-term borrowing to manage cash flow
- Savings for future one-time planned expenditures
- Protection against unanticipated/unbudgeted expenditures
- Credit ratings and long-term borrowing costs

School funding in California remains highly dependent on growth in general fund, and large year-over-year revenue increases are likely behind us. Future revenues may be inadequate to cover increases in largely uncontrolled expenditures (increasing employer pension rates, step and column, medical premiums, inflation, special education, etc.). If an economic downturn or other unforeseen circumstances occur, a prudent reserve affords districts and their governing boards time to thoughtfully identify and implement budget adjustments over time. Inadequate reserves force districts to react quickly, often causing significant disruption, sometimes unnecessarily, to student programs and employees, or worse.

Senate Bill 751 (Hill and Glazer) was signed by the Governor on October 11, 2017, and modifies Education Code 42127.01 (commonly referred to as the reserve cap). SB 751 will take effect on January 1, 2018. Existing law specifies that in any fiscal year immediately following a year in which a transfer of any amount is made to the Public School System Stabilization Account, a district's assigned and unassigned fund balance (including Fund 01 and Fund 17) may not exceed two times the reserve for economic uncertainty (three times the reserve for economic uncertainty for districts with more than 400,000 ADA).

SB 751 will require a balance of 3% or greater of the Prop. 98 amount in that year to the Public School System Stabilization Account to trigger the reserve cap in the following year. According to SB 751, reserves would be capped at 10% as long as the amount in the Public School System Stabilization Account remained at 3% or greater of the Prop. 98 amount in each preceding year. Due to some ambiguity in the bill language on how the 10% reserve would be calculated, the Governor's signing message indicated cleanup legislation is needed. The clarifying legislation will specify that only the combined assigned and unassigned fund balances of a district would be used to meet the 10% reserve limit should the cap ever be triggered. This bill also exempts basic aid and small school districts (those with fewer than 2,501 ADA) from the reserve cap. SB 751 does not modify the four conditions that must be met to allow a transfer to the Public School System Stabilization Account, those being:

1. Prop. 98 is funded based on Test 1;
2. Prop. 98 maintenance factor created prior to 2014-15 is fully repaid;

3. Prop. 98 is sufficient for enrollment growth and statutory COLA; and
4. at least 8% of state general fund revenues must come from capital gains.

The likelihood of all four of these conditions being met in a single year remains low but if this does come to pass, districts still have the option to request a waiver from the county superintendent of schools for up to two consecutive years in a three-year period. Notwithstanding the current reserve cap language in EC 42127.01 and the changes contained in SB 751, districts are advised to manage and maintain prudent reserves as outlined in the preceding paragraphs of this section.

Negotiations

The past several years of increased revenues have led to practices that increase the risk of fiscal insolvency for school districts, as noted below:

- Utilization of one-time funding, including the allocation of fund balance, for ongoing compensation increases, which will lead to significant structural deficits and threaten district solvency.
- Crafting multiyear settlement agreements that are not sustainable due to volatile future revenue projections. Negotiating based on uncertain future year revenues is not advised.

Numerous other risk factors on the horizon affect the affordability of collective bargaining agreements:

- The implementation of Affordable Care Act penalty requirements
- Costs associated with AB 1522 (expanded sick leave)
- AB 2393 requirements for classified differential pay
- Ongoing increases in the state minimum wage

Regardless of the economic environment, districts must be prepared to respond to employee requests for staff compensation and benefit increases. Nonetheless, fiscal solvency is paramount in negotiations and can only be maintained through careful and thorough study of district revenue and expenditure projections. Maintaining fiscal solvency while maximizing services to students with available financial resources will be a continuing challenge. It is inevitable that cost reductions will be required for many districts in the budget year and/or the out years of the multiyear financial projection period.

Prop. 39 – Clean Energy Job Act

The state's 2017-18 adopted budget allocated \$376.2 million in funding to Prop. 39 for the 2017-18 fiscal year, which brings the five-year total to \$1.75 billion. In addition, the newly adopted SB 110 establishes an ongoing but modified version of the Clean Energy Job Creation Program that would be operative only if funds are appropriated for this purpose. SB 110 also appropriates any unallocated funding that will not be claimed by LEAs to support the following priorities:

- The first \$75 million would support school bus retrofit or replacement. Priority shall be to school districts and county offices operating the oldest school buses or school buses operating in disadvantaged communities.
- The next \$100 million would support a competitive program that provides low-interest and no-interest loans for eligible projects and technical assistance to improve energy efficiency and expand clean energy generation.
- Any remaining funds would support the ongoing, but modified, version of the Clean Energy Job Creation Program.

Updated information can be found at:

Source site: <http://www.energy.ca.gov/efficiency/proposition39/>

Most recent important updates:

- All Annual Progress Reports from 2016 were available July 3, 2017 and due Sept 30, 2017.
- Current law requires LEAs to encumber Prop. 39 K-12 program allocations by the statutory deadline of **June 30, 2019**.
- The last date to submit energy expenditure plans to the Energy Commission is **February 26, 2018**.

Per CDE, no contribution is needed to Resource 6230 because the apportionments cross fiscal years; a negative ending fund balance is allowable with explanation in the technical checks (scroll to the bottom of the page):

<http://www.cde.ca.gov/fg/ac/ac/sacsminutes110215.asp>

As of July 31, 2017 an updated entitlement schedule with payment and balances is available on the CDE website: <http://www.cde.ca.gov/fg/aa/ca/prop39ccej.asp>.

This report provides background on the Prop. 39 California Clean Energy Jobs Act K-12 Program and a summary of approved energy expenditure plans, completed projects, and projects soon to be completed, as reported by LEAs: <http://www.energy.ca.gov/2017publications/CEC-400-2017-001/CEC-400-2017-001-CMF.pdf>

Child Care, Preschool and Transitional Kindergarten

Almost all the Governor's May Revision proposals for early childhood programs were adopted as part of the 2017-18 budget package. Specifically, the following significant proposals were approved:

- An 11% increase in the State Preschool and other direct-contracted child care and development standard reimbursement rate, effective July 1, 2017.
- An increase in the income eligibility threshold; 12-month eligibility established.
- Part-day State Preschool programs may enroll children with exceptional needs whose parents exceed income eligibility after all otherwise eligible children have been served.
- School districts are authorized to offer different instructional minutes for kindergarten and transitional kindergarten.
- Beginning April 1, 2018, 2,959 new State Preschool slots added.
- Beginning July 1, 2019, Title 22 licensing exemption is authorized for LEA-run State Preschools after a working group provides recommendations on existing Title 22 health and safety requirements that are not required under Title 5 or Title 24.

Proposals to allow flexibility in meeting minimum adult-to-student ratios and teacher education requirements were *not* approved.

LCAP – Budget Implications and Considerations

The First Interim reporting period provides an opportunity for LEA leaders to review planned LCAP expenditures and progress toward implementation of LCAP actions and services. This collaborative assessment, performed by business and instructional teams, is essential to determine the timing of implementation and expenditures related to programs and services the district has committed itself to for 2017-18.

Identifying potential differences between actual expenditures and what was planned in the LCAP will help facilitate discussions, both internally and with stakeholders, on why these differences exist. This will help to prepare the LCAP Annual Update and provide for meaningful engagement with stakeholders.

In late November 2017, the CDE will release the next version of data for the California School Dashboard. The updated dashboard will include enhanced capabilities to enable easier access to student performance data for districts and stakeholders. Some of the enhancements include:

- Revised metrics for English Learner Progress and Academic Indicators
- Population of College/Career Indicator
- Release of Local Performance Indicators
- Ability to view data for all schools in a district from within the Reports section
- Printer-friendly reports
- Increased search functionality
- Mobile-friendly page displays
- High-quality Spanish translation

As districts assess progress toward implementation of planned actions and services, they also need to review progress toward meeting the goals and outcomes outlined in their LCAP. The Fall 2017 release of the California School Dashboard will provide data critical for the next update to the LCAP. Districts will need to incorporate this information in their stakeholder engagement over the coming months.

Career Technical Education Facilities Program

The Career Technical Education Facilities Program (CTEFP) provides funding to qualifying school districts and joint powers authorities (JPAs) for the construction of new facilities, modernization or reconfiguration of existing facilities, and equipment to integrate Career Technical Education programs into comprehensive high schools.

Prop. 51 includes \$500 million to construct/modernize CTE facilities as well as purchase equipment on comprehensive high school sites. JPAs currently operating CTE programs may qualify for modernization funds.

On August 23, 2017, the State Allocation Board approved \$125 million for the next CTEFP funding cycle. Applications are now being accepted through November 29. This is a competitive grant process and applications must score at least 105 points to be considered for funding.

Applications for CTEFP funding occur in two stages. First, the applicant submits a grant application to the CDE. Upon receipt of a passing score, the applicant may submit a funding application to the OPSC. OPSC and CDE staff collaborated to develop the schedule for applications and funding as depicted below:

- Grant applications submitted to CDE September 27, 2017 through November 29, 2017.
- Grant application scores published by CDE February 14, 2018.
- Application for Career Technical Education Facility Funding (Form SAB 50-10) due to OPSC by close of business February 21, 2018.

For detailed information, please see the websites listed below:

CDE page for CTE Facilities Program: <http://www.cde.ca.gov/ls/fa/sf/careertech.asp>

OPSC page for CTE Facilities Program:

<http://www.dgs.ca.gov/opsc/Programs/careertechnicaleducationfacilitiesprogram.aspx>

Summary

As stated in the introduction, this edition of the Common Message contains information for utilization in preparing the 2017-18 First Interim budget report. It is imperative that LEAs stay well informed, consider the impact of proposed and potential changes, both fiscal and programmatic, and adapt accordingly.

The greatest increases in LCFF are behind us. As funding for education flattens, districts are cautioned to have contingency plans. Increases in retirement expense, greater focus on LCAP spending and minimal funding through Prop. 98 can quickly impact a district's financial status.