

The Common Message

May Revision 2015

Planning Factors for Budget Development and MYPs

Key planning factors for LEAs to incorporate into budget development and multiyear projections are listed below and based on the latest information available as of May 2015.

<i>Planning Factor</i>	<i>Fiscal Year</i>			
	2014-15	2015-16	2016-17	2017-18
COLA (DOF)	0.85%	1.02%	1.60%	2.48%
LCFF Gap Funding Percentage (DOF)	29.97%	53.08%	37.40%	36.74%
STRS Employer Rates	8.88%	10.73%	12.58%	14.43%
PERS Employer Rates (PERS Board / Actuary)	11.771%	11.847%	13.05%	16.6%
Lottery – unrestricted per ADA*	\$128	\$128	\$128	\$128
Lottery – Prop. 20 per ADA*	\$34	\$34	\$34	\$34
Mandated Cost per ADA / One Time Allocations (DOF)	\$67	\$601	\$0	\$0
Mandate Block Grant for Districts – K-8 per ADA**	\$28	\$28	\$28	\$28
Mandate Block Grant for Districts – 9-12 per ADA**	\$56	\$56	\$56	\$56
Mandate Block Grant for Charters – K-8 per ADA**	\$14	\$14	\$14	\$14
Mandate Block Grant for Charters – 9-12 per ADA**	\$42	\$42	\$42	\$42
State Preschool Daily Reimbursement Rate**	\$22.28	\$22.63	\$22.63	\$22.63
General Child Care Daily Reimbursement Rate **	\$36.10	\$36.67	\$36.67	\$36.67
Routine Restricted Maintenance Account	1%	3%	3%	3%
* Lottery funding will no longer include the 2007-08 ROP and Adult Education ADA in 2015-16 and beyond.				
**These rates have not yet been updated with May Revision projections.				
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Reserves

County offices continue to reinforce the need for reserves over the minimum reserve requirements. The experience of the most recent recession has clearly demonstrated these minimum levels are not sufficient to protect educational programs from severe disruption in an economic downturn. The typical 3% reserve minimum represents less than two weeks of payroll for many districts. Many LEAs have established reserve policies calling for higher than minimum reserves, recognizing their duty to maintain fiscal solvency. The adequacy of a given reserve level should be assessed based on the LEA's own specific circumstances. Numerous reasonable models are available for consideration. Examples include:

- The Government Finance Officers Association recommends reserves equal to two months of average general fund operating expenditures, or about 17%.
- Rating agencies like Fitch or Moody's typically assess the adequacy of a district's reserves by comparing them to statewide averages, which have hovered around 15% for California unified school districts in recent years.
- The Fiscal Crisis and Management Assistance Team emphasizes the need to assess not only fund balance but also actual cash on hand.

The most recent attempts to repeal current law related to a potential limitation to the amount of district reserves have stalled in the legislature's committees in past weeks. In addition, the May Revision does not address this issue.

As a reminder, the public hearing and transparency requirements imposed by SB858 (EC 42127(a)(2)(B)) go into effect starting with 2015-16 adopted budgets regardless of whether or not the reserve cap is triggered.

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).

At its February 2015 meeting, the EAAP adopted a set of emergency regulations to amend the 2014-15 Audit Guide to address legislative changes in the conditions of apportionment of school funding that affects the current audit year. The updated Audit Guide booklet is available at www.eaap.ca.gov.

Most amendments to the 2014-15 Audit Guide are technical revisions. However, there are two areas of substantial change as follows:

- California Clean Energy Job Act added a reference for guidelines from the California Energy Commission and a reference for Prop. 39 planning from CDE.

- Unduplicated LCFF pupil counts added clarification for Provision 2 or 3 designated schools and instructions to use the CDE website for enrollment and unduplicated pupil counts.

At its April 2015 meeting, the EAAP adopted a set of emergency regulations to amend the 2015-16 Audit Guide. These changes will be effective July 1, 2015 for the annual 2015-16 fiscal year audit. The changes to the 2015-16 Audit Guide are as follows:

- Deleted ROP and Adult Education Maintenance of Effort sections as the two-year provision has passed.
- Common Core Implementation Fund section is deleted.
- Instructional time had some technical changes.
- A section was added to add audit procedures for course-based independent study.
- A section was added on immunizations, with three pages of additional audit procedures for immunizations. The Department of Public Health (DPH) requested a process to audit districts if they do not submit their annual immunization reports to DPH. If districts submit their reports for all schools and their conditional approvals were below 25% by the reporting date, then no additional procedures should be required. Familiarity with this new section is essential, as the penalties for noncompliance could be costly.
- A section was added for School Facility Bonds.

The updated audit guide booklet is available at www.eaap.ca.gov.

Summary

The Governor's May Revision significantly increases funding to education in 2015-16 and continues to demonstrate his commitment to funding the LCFF. A substantial amount of one-time funding is proposed. Most notably, his proposal is just that, a proposal. The legislative process will carry out before the State Budget is adopted in June and will most likely include changes to the May Revision. Overall it appears California schools will be in a much improved position to better serve students in the fall of 2015.

Every district receives differing amounts of revenue and has its own particular set of financial risk factors. It is important that all LEAs continue to assess their individual situations and plan accordingly to maintain fiscal solvency.