The Marin Common Message

May Revision 2019

MARIN COUNTY OFFICE OF EDUCATION

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2019-20 Preliminary Budget Key Guidance

The May Revision confirms that General Fund revenues increased by $3.2 billion since the release of the Governor's January budget. The administration attributes these gains primarily to short-term personal income gains stemming from a strong stock market and initial public offerings of stock of large California-based companies, as well as corporate tax revenue from shifting of income in 2017 and 2018 and other one-time revenues from repatriation of foreign earnings associated with the federal tax changes. The revenues are increased short-term from 2017-18 through 2019-20 in the budget forecast, but lower for years beyond the forecast window.

The May Revision maintains full funding of the Local Control Funding Formula (LCFF), contributions to the Rainy Day Budget Reserve (Prop. 2, 2014), and a first-time deposit to the Public School System Stabilization Account (PSSSA). Relative to the January Governor's Budget, Prop. 98 funding at May Revision is up by $78.4 million in 2017-18, $278 million in 2018-19, and $389.3 million in 2019-20. The Governor maintains the same education priorities with some funding adjustments, but with the entire $389.3 million of new Prop. 98 funding going into the PSSSA. The large funding priorities as of May:

- $2 billion in Prop. 98 funding dedicated to the statutory COLA of 3.26%;
- $3.15 billion non-Prop. 98 funds toward debt payments to the CalSTRS liability for school employers;
- $696.2 million ongoing for Prop. 98 special education; and
- $1.5 billion in state bonds to allow agencies greater access to funds for facilities projects.

Significant Changes Since 2nd Interim

- Statutory COLA 3.26%
- The May Revision adds $150 million to the January proposal of one-time non-Prop. 98 appropriation ($500 million total) to further reduce the 2019-20 CalSTRS employer contribution rate to 16.7%.
- The May Revision includes a proposal of $696.2 million in non-AB 602 funding for supplemental services for students with disabilities, an increase of $119.2 million from the Governor's January Proposal, all of which would now be ongoing.
- The May Revision includes several new investments to increase access to subsidized child care for low-income families. See the Early Childhood Education section for more detail.

Planning Factors for 2019-20 and MYPs

Key planning factors for LEAs to incorporate into their 2019-20 budgets and MYPs are listed below and are based on the Governor's May Revision. In addition, LEAs should take into consideration any local statutory adjustments that may affect their budget, such as minimum wage adjustments.

Planning Factor	2019-20	2020-21	2021-22
Statutory COLA (DOF)	3.26%	3.00%	2.80%
STRS Employer Statutory Rates (statute until 2020-21)	18.13%	19.10%	*18.3%
STRS Employer Statutory Rates (Proposed Buydown)	*16.70%	*18.10%	*17.80%
PERS Employer Projected Rates (May 2019)	20.733%	23.60%	24.90%
Lottery – Unrestricted per ADA	$151.00	$151.00	$151.00
Lottery – Prop. 20 per ADA	$53.00	$53.00	$53.00
Mandated Block Grant for Districts – K-8 per ADA	$32.18	$33.15	$34.08
Mandated Block Grant for Districts – 9-12 per ADA	$61.94	$63.80	$65.59
Mandated Block Grant for Charters – K-8 per ADA	$16.86	$17.37	$17.86
Mandated Block Grant for Charters – 9-12 per ADA	$46.87	$48.28	$49.63

Planning Factor	2019-20	2020-21	2021-22
State Preschool (CSPP) Part-Day Daily Reimbursement Rate	$30.87	$30.87	$30.87
State Preschool (CSPP) Full-Day Daily Reimbursement Rate	$49.85	$49.85	$49.85
General Child Care (CCTR) Daily Reimbursement Rate	$49.54	$49.54	$49.54
Routine Restricted Maintenance Account	Equal or greater than 3% of total GF expenditures	Equal or greater than 3% of total GF expenditures	Equal or greater than 3% of total GF expenditures

*The Governor's May Revision proposes using approximately $850 million to reduce the 2019-20 CalSTRS employer statutory rate from 18.13% to 16.7% and the 2020-21 employer statutory rate from 19.1% to 18.1%.

Reserves/Reserve Cap

The Common Message continues to reinforce the need for reserves in excess of the minimum reserve for economic uncertainty. The state-required reserve for economic uncertainty represents only 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%. In determining an appropriate level of reserves, districts should consider multiple external and local factors including but not limited to:

- State and federal economic forecasts and volatility
- Unknown impacts of federal tax reform on state revenue
- Forecasted revenue changes versus projected expenditure increases in budget and multiyear projection years
- Ending balance impact of various district enrollment scenarios
- Cash flow requirements and the relationship between budgeted reserves and actual cash on hand
- Savings for future one-time planned expenditures
- Protection against unanticipated/unbudgeted expenditures

- Offset unfunded liabilities
- Credit ratings and long-term borrowing costs

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.

Post-recession economic expansion has matched the longest since World War II. Even a mild recession could result in lower estimated state general fund revenue of $70 billion over a few years. To buffer the state against uncertainty and future budget cuts, the proposed budget is projected to build the Rainy Day Fund to $16.5 billion by the end of 2019-20, by adding another $1.2 billion. The Rainy Day Fund is proposed to reach 100% of its constitutional target (10% of expenditures) by 2020-21, and by 2022-23, the total balance is projected to be approximately $18.7 billion. It is important for districts to recognize the purpose of the Rainy Day Fund is to protect the non-Prop. 98 side of the state budget.

In 2019-20, conditions require a transfer of $389 million to the Public School System Stabilization Account (PSSSA), but the district reserve cap is not operable. The four conditions to enable a transfer to the PSSSA are:

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
4. At least 8% of state general fund revenues must come from capital gains
5. Proposition 98 is not suspended

Under Prop. 2, the amount transferred to the PSSSA is the lower of: (1) the difference between Test 1 and Test 2 levels under Prop. 98 or (2) the portion of capital gains attributable to Prop. 98. The $389 million deposit is the difference between Test 1 and Test 2.

If the reserve cap becomes operable in future years, district reserves would be capped at 10% (including designated and undesignated reserves Fund 01 and Fund 17) as long as the amount in the PSSSA remained at 3% or greater of the Prop. 98 amount in each preceding year. Basic aid and small school districts (those with fewer than 2,501 ADA) are exempted from the reserve cap.

In addition, districts have the option to request a waiver from the county superintendent of schools for up to two consecutive years in a three-year period. Districts are advised to manage and maintain prudent reserves without consideration of the reserve cap language included in Education Code 42127.01.

Negotiations

Although LEAs may benefit from a higher COLA environment than seen in years prior to 2018, the need for fiscal prudence to maintain reserves and restrain from deficit spending is critical.

When planning for negotiations, LEAs should consider the following:

- The Governor's proposed programs funded by non-Prop. 98 dollars (preschool, full-day kindergarten, STRS relief) still need to be enacted.
- Full funding of the LCFF is limited to COLA alone at 3.26%. LEAs may feel the impact of no longer receiving increased funding for LCFF gap closure.
- Full funding of the LCFF also requires districts to maintain a 24:1 class size ratio for kindergarten through grade 3 unless a collectively bargained alternative ratio exists.
- Full funding of the LCFF equates to supplemental and concentration grants also being fully funded, which may require an increase in expenditures and services principally directed to the unduplicated students who generated those dollars.
- Increased costs related to employee health benefits.

Many other risk factors on the horizon affect the negotiating environment and the affordability of collective bargaining agreements:

- New proposal for expanded parental leave (of which most details are unknown).
- Annual increases in the state minimum wage by $1.00 per hour on January 1.
- Increased costs in property and liability insurance premiums.
- The increasing risk of an economic downturn as the expansion cycle exceeds most previous cycles.

Regardless of the economic environment, districts always must be prepared to respond to employee requests for staff compensation and benefit increases. Nonetheless, fiscal solvency is paramount in negotiations and, if it is to be sustained, demands reasonable and accurate 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.

Local Control and Accountability Plan (LCAP)

As the final 2019-20 LCAP is prepared for board approval, district CBOs should work with program staff to ensure that the fiscal information presented in the Goals, Actions & Services section is consistent with the proposed 2019-20 budget, and that the information in the Annual Update section is consistent with the estimated actuals for 2018-19.

As a reminder, this year the new LCFF Budget Overview for Parents (https://www.cde.ca.gov/re/lc/documents/budgetoverviewparents.xlsx) is to be attached as a cover to the LCAP, and it must go through the approval process along with the LCAP. The public hearing notice and board agenda item should address the addition of the LCFF Budget Overview for Parents.

In addition to the main LCAP template and the Budget Overview, this year LEAs will need to complete the LCAP Federal Addendum and submit it directly to CDE by July 1, 2019, through CDE's online submission system. The Addendum is tied to an LEA's application for federal funds through the Consolidated Application. CDE issued the following guidance on April 23 through the LCFF listserv:

> Prior to accessing the Addendum submission system, LEAs must review and finalize the Application for funding page in the Consolidated Application Reporting System (CARS). The LEAs will only have access to the sections of the Addendum consistent with the ESSA programs for which the LEA is applying as indicated through CARS.
>
> LEAs may submit the Addendum through the deadline of July 1, 2019. Addendums submitted after the deadline will be processed after the review and approval of the Addendums submitted prior to the July 1 deadline. LEAs that fail to finalize its Application for Funding page within CARS and submits its Addendum by the July 1 deadline may experience a delay of its ESSA funding.
>
> The Addendum submission system uses the CDE's Centralized Authentication System (CAS) to manage appropriate login credentials and access to the system. LEA users must access the Addendum submission system using the same credentials used for logging on to CARS. A CAS user account may be obtained by visiting https://www3.cde.ca.gov/cdeauthentication/logon.aspx?programabbr=lcapfas and following the instructions provided on the web page.
>
> The Addendum submission system login page is available at https://www2.cde.ca.gov/lcapfas.

CDE issued a letter to county and district superintendents and charter administrators on May 14 that provided further guidance regarding approval and submission of the Federal Addendum:

> Prior to submitting the Addendum, an LEA must complete the Application for Funding page within the Consolidated Application and Reporting System (CARS) and must certify that the 2017/18-2019/20 LCAP has been approved by the local governing board

or governing body of the LEA. Further, the LEA must certify that the Addendum has been approved by the local governing board or governing body of the LEA.

The Addendum cannot be submitted prior to the board approval date. LEAs with board approval dates planned for the end of June should prepare to submit the Addendum no later than July 1, 2019.

CalSTRS Liabilities and Employer Contribution Rates

The May Revision adds $150 million to the January proposal of one-time non-Prop. 98 appropriation ($500 million total) to further reduce the 2019-20 employer contribution rate to 16.7%.

In January, the Governor proposed a $3 billion supplemental contribution with non-Prop. 98 funds to reduce CalSTRS long-term liabilities. The proposal had two elements:

- $700 million ($350 million in 2019-20 and $350 million in 2020-21) to be provided to buy down employer contribution rates over the next two years. Based on current assumptions, employer contributions would decrease from 18.13% to 17.1% in 2019-20 and from 19.1% to 18.1% in 2020-21.

- The remaining $2.3 billion would be paid toward the long-term unfunded liability of the retirement fund.

Early Childhood Education

Child Care

The May Revision includes several new investments to increase access to subsidized child care for low-income families. These proposals expand the number of child care vouchers funded by the state, provide families receiving CalWORKs subsidies with additional continuity and stability in their access to subsidized child care, and provide options for emergency child care for families in crisis. Specifically, the May Revision includes:

- $80.5 million Cannabis Tax Fund to subsidize child care for children from income-eligible families. These funds are continuously appropriated.

- $40.7 million General Fund in 2019-20 and $54.2 million ongoing General Fund to allow CalWORKs recipients to receive Stage 1 child care for up to 12 months. This will provide CalWORKs clients consistent child care access while their work activities stabilize.

- $12.8 million federal funds to pilot a program to allow alternative payment agencies to offer emergency child care vouchers to families who are in crisis and in need of temporary assistance.

- $2.2 million ongoing federal funds to improve child care quality through Quality Counts California.

Additionally, the May Revision increases funding for CalWORKs Stages 2 and 3 child care by $38.2 million ongoing General Fund, for a total of $157.5 million in additional funding in 2019-20, reflecting an increase of nearly 14,000 children in these programs (a 13.4% increase).

The Governor's Budget proposed increasing access to the existing State Preschool program by providing 30,000 full-day, full-year State Preschool slots for all eligible low-income 4-year-olds. To align the release of the proposed slots with the application process required to identify providers and to enter into contracts, the May Revision moves the release date for the first 10,000 slots to April 1, 2020. Given lower projected revenues over the forecast period, the May Revision postpones the release of the final 20,000 slots.

The Governor's Budget included $10 million for a long-term strategic plan that will provide a road map for a better aligned comprehensive early learning and care system. The Master Plan for Early Learning and Care will build on recent work by the Legislature and the CDE.

Full-Day Kindergarten Expansion

The May Revision adjusts the January proposal of $750 million one-time non-Prop. 98 funds to $600 million one-time non-Prop. 98 funds to assist schools in constructing or retrofitting facilities to expand access to full-day kindergarten programs. The funding is available over a three-year period, but with eligibility limited during the first two years to schools that will convert from part-day to full-day kindergarten programs.

Additionally, to provide a greater fiscal incentive and support for districts to participate in the program, the May Revision also increases the state share of the facility grant from 50% to 75% for schools converting from part-day to full-day kindergarten. The program will continue to prioritize available grants toward school districts with high rates of students receiving free and reduced price meals and will enable eligible school districts to qualify for financial hardship funding similar to the traditional K-12 facilities program.

Special Education

The May Revision includes the statutory COLA of 3.26% ($17.59 per ADA) and a 2019-20 Statewide Target Rate of $557.27 per ADA. The official 2018-19 Statewide Target Rate is $539.68 and reflects the 2.71% COLA. The 2018-19 statewide target is calculated after removal of the 2017-18 regionalized services/program specialist funding from the AB 602 calculation, which occurred in the 2018-19 State Budget. The official statewide average program specialist/regionalized services rate for 2018-19 is $15.97 and is estimated to be $16.49 for 2019-20 based on the 3.26% COLA.

The May Revision also includes a proposal of $696.2 million in non-AB 602 funding for supplemental services for students with disabilities, an increase of $119.2 million from the Governor's January Proposal, all of which would now be ongoing.

The Special Education Concentration Grant would be allocated to school districts, county offices of education, and charter schools that have an unduplicated pupil percentage above 55% and an identified percentage of students with disabilities that exceeds the three-year (budget year and two prior years) statewide average. These funds would be allocated to qualifying LEAs based on the number of students with disabilities in excess of the statewide average.

In each year, commencing with the 2020-21 fiscal year, the ongoing concentration grant funding provided in the State Budget would be adjusted by COLA. This grant is intended to supplement special education services and supports beyond those required by individualized education programs. Services and supports provided by this funding may include but are not limited to early intervention services, including preschool and supportive services for young children who are not meeting age-appropriate developmental milestones or other supportive services, one-time programs, infrastructure investments or resources for students with exceptional needs, strategies to improve student outcomes identified through the state system of support or to expand local multi-tiered systems of support and wraparound services for students with exceptional needs. Grant funds may also be used for professional development activities and the coordination of services with other educational agencies, programs, resources and professional development providers.

Summary

The Common Message is devised to assist LEAs in developing budgets and interim reports. How this information affects each LEA is unique. With this in mind, LEAs should evaluate their individual educational and financial risks.