

The Marin Common Message

2015-16 May Revision

May 25, 2015

MARIN COUNTY OFFICE OF EDUCATION

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Introduction

This edition of the Common Message is intended to provide information and guidance to assist Marin districts in developing 2015-16 adopted budgets. It contains information related to the Governor's May Revision Budget Proposal.

Significant Changes since January Governor's Budget Proposal

Summary of May Revision

The Governor released the May Revision to his January 2015-16 budget proposal on May 14, 2015. The May Revision State General Fund revenues increased from the January proposal by \$6.7 billion over the three-year forecast period: 2013-14, 2014-15, and 2015-16. K-14 schools will receive \$5.5 billion of the new general fund revenue which, with the inclusion of additional local property tax collections, produces an increase of over \$6 billion in Prop. 98 funding. The Governor now estimates 2015-16 Prop. 98 spending at \$68.4 billion. While most of the Governor's spending will be targeted toward one-time investments, K-12 schools received \$2.4 billion in additional ongoing spending, most of which is directed toward 2015-16 Local Control Funding Formula (LCFF) gap funding (\$2.1 billion).

- Prop. 98 K-14 spending increases:
 - \$240 million in 2013-14
 - \$3.1 billion in 2014-15
 - \$2.7 billion in 2015-16
- Prop. 98 maintenance factor is reduced to \$772 million by the end of 2015-16
- Funding for the LCFF was significantly increased by an additional \$2.1 billion to \$6.1 billion, increasing the 2015-16 gap funding from 32.1% to 53.08%.
- One-time mandate repayments are an additional \$2.4 billion, beyond what was included in his January proposal, for a total of \$3.5 billion. The funds are totally discretionary and are estimated at \$601 per ADA. The governor ascertains these one-time funds will allow schools to make the necessary investments in professional development, new teacher induction, instructional materials and technology expansions. These funds will offset any applicable mandate claim reimbursements for LEAs.
- Adult Education - the May Revision maintains the \$500 million to establish the Adult Education Block Grant program providing funds for adult education to school districts and community colleges.

- \$900 million in one-time Prop. 98 funding in each of the next three years to support a transitional Career Technical Education (CTE) Incentive Grant. Additionally, the minimum local-to-state funding match requirement was raised to 1.5:1 in 2016-17 and 2:1 in 2017-18.
- 1.02% Cost of Living Adjustment to categorical programs outside of LCFF.
- \$1.2 million increase to the K-12 Mandated Program Block Grant.
- \$60.1 million directed to Special Education in response to recommendations provided by the statewide Special Education Task Force. \$50.1 million is ongoing and \$10 million is one-time.
- Increased funding (Prop. 98 and non-Prop. 98) for both subsidized child care and State Preschool Program.
- \$4.6 million one-time Prop. 98 increase for Quality Education Investment Act (QEIA) transition funding in 2015-16.

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.				

Key Guidance for Second Interim

Situational Guidance and Multiyear Projections

The Governor's May Revision projects significant growth in Prop. 98 revenues. The additional revenue and commitment toward LCFF gap funding is good news for LEAs. However, this surge in funding also serves to highlight the volatility of state revenues. Under LCFF, rapid revenue growth in state revenues can accelerate a district's growth out of basic aid and into state funding. Further pressures come from increased competition for a limited pool of qualified teaching candidates, increasing pension costs borne by employees and employers, and increasing facility needs and costs.

LEAs face increasing pressure to improve outcomes for students, which may require the ability to reallocate resources if existing programs are not producing the desired results. Every LEA faces its own particular set of educational challenges, and there is no "one size fits all" plan. Similarly, every LEA faces its own particular set of financial risk factors based on current reserve levels, enrollment trends, bargaining agreements, degree of revenue volatility and a host of other local and statewide factors.

Each LEA's situation is unique and in such a dynamic and uncertain operating environment there are a few key aspects to maintaining fiscal solvency and protecting the integrity of educational programs that apply to all districts:

1. Maintaining adequate reserves to allow for unanticipated circumstances (with the *adequate* level being based on each LEA's unique situational assessment).
2. Maintaining fiscal flexibility by limiting commitments to future increased expenditures based on projections of future revenue growth, and/or establishing contingencies that allow expenditure plans to be changed if needed.

LEAs are advised to use the FCMAT LCFF Calculator and the Planning Factors listed at the beginning of this document in building multiyear projections (MYPs). If alternate assumptions are used, the source of those assumptions and the reasons for adopting them should be clearly documented. Transparency is essential for maintaining an LEA's credibility. Clearly communicating and explaining budget assumptions to stakeholders is critical.

LEAs should also consider building in contingencies for emerging expenditure requirements such as impacts of the Affordable Care Act, the rising costs of health insurance, AB 1522 sick leave accrual for part-time employees, possible pressure to prefund other post-employment benefits (OPEB) programs, or future facility needs to name a few examples.

Best practices for assessing district risk factors begin with using FCMAT's Fiscal Health Risk Analysis: Key Fiscal Indicators <http://fcmat.org/wp-content/uploads/sites/4/2015/05/Fiscal-Health-Risk-Analysis-K-12-5-2015-final.pdf>

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.

Reserve Cap

The most recent attempts to repeal current reserve cap 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.

In order for the Reserve Cap to be triggered, the state must first make a deposit into the Proposition 98 reserve. For that to occur, the state must meet the following three conditions:

1. Capital gains represent more than 8% of state general fund revenues
2. The Proposition 98 Maintenance Factor must be fully paid
3. Proposition 98 must be calculated according to Test 1 conditions

A county superintendent of schools may grant an exemption, provided school districts provide 1) a statement substantiating extraordinary circumstances, 2) provide amounts associated circumstances, and 3) provide documentation that no other resources are available.

Negotiations

With LCFF the art of negotiations has dramatically changed. ADA is just one of the many complexities of budgeting revenue, and districts must now consider the type and grade level of students when anticipating revenue increases and decreases.

The large projected increase in gap funding in 2015-16 may lead to smaller year over year increases in future years, just as the rising STRS and PERS contributions rates begin to ramp up. Additionally, the continued presence of one-time funding can complicate the collective bargaining environment. For this reason, LEAs are encouraged to exercise caution when bargaining ongoing commitments for salaries or health care benefits.

LEAs should recognize and be mindful that the LCFF gap percentage and the proposed one-time funding may change from the current version included in the May Revision compared to the final state budget adoption. It is important to remember that along with higher gap funding percentages comes an accelerated requirement to meet class size reduction in grades K-3, along with the requirement to increase and improve services for targeted students with supplemental and concentration funds.

Although a large increase to gap funding is proposed, districts should take caution not to settle negotiations with bargaining units based on May Revision figures, as gap funding may change with the adopted 2015-16 budget.

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 still in proposal form. The legislative process will determine the final State Budget when adopted in June and will likely include some changes to the May Revision. Overall, however, it still appears California schools will be in a stronger position to focus and deliver on student achievement.