The Common Message

Second Interim 2016-17
February 2017

CCSESA

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Business and Administration
Steering Committee

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Summary	Committee Chair	Current BASC Chair	

Sources

Association of California School Administrators
Bob Blattner and Associates
Bob Canavan, Federal Management Strategies
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California Collaborative for Educational Excellence
California Department of Education
California Department of Finance
California State Board of Education
California School Boards Association
California School Information Services
Capitol Advisors
Fiscal Crisis and Management Assistance Team
Jeff Frost; Frost, Davis, and Donnelly
K-12 High Speed Network
Michael Hulsizer, BASC Liaison & Kern County Superintendent of Schools
National Forest Counties and Schools Coalition
School Services of California
Schools for Sound Finance (SF2)
Small School Districts' Association
Statewide LEC Co-chairs
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Introduction

This edition of the Common Message is intended to provide information and guidance to assist LEAs in developing 2016-17 Second Interim reports and their multiyear projections (MYPs). It contains information related to the final Adopted Budget for 2016-17 and the January 2017 Governor's budget proposal. This version of the Common Message addresses items considered important for LEAs to include in their interim reports and MYPs.

Second Interim Key Guidance

As districts strive to continuously improve student outcomes, they face the ongoing challenge of allocating their limited resources to maximize results. In addition, while most districts are now experiencing a leveling of funding increases, their costs continue to rise significantly into the foreseeable future.

Districts must plan for the slowing of funding growth. The largest funding increases from LCFF implementation are behind us and state revenue growth has slowed. The approval of income tax extension (Proposition 55) by California voters will continue to support state revenues through 2030, but the revenue is expected to be volatile and there is uncertainty as to how much revenue actually will be generated.

Districts must plan for increases in fixed operating costs: most predominantly, statutory employment compensation. Recently, the state enacted minimum wage increases that will raise the minimum wage annually until it reaches $15 per hour in 2022. CalPERS and CalSTRS both presented employer contribution schedules that increase over the next several years. The most recent CalPERS schedule shows employer contribution rates doubling from the current employer contribution rate within the next seven years, and the CalSTRS actuarial firm stated the expected "increase [in] unfunded liability will likely result in the need for higher contributions in the future." Employers must anticipate these planned increases in pension contributions and the potential for additional adjustments to meet pension obligations.

In addition, many districts rely on other funding sources that include federal, state and local facility funds, local tax revenues, and other local revenues that have and may continue to become less stable and consistent.

As each LEA faces its own particular set of financial risk factors based on current reserve levels, enrollment trends, bargaining agreements, degree of revenue volatility and various other local and statewide factors, each must plan accordingly to meet continuous improvement objectives while maintaining fiscal solvency.

In such an uncertain environment, all districts should strive to maintain fiscal solvency and protect the integrity of educational programs by:

1. Maintaining adequate reserves to allow for unanticipated circumstances (with the adequate level 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 as needed.

LEAs are advised to use the latest version of the FCMAT LCFF Calculator and the list in the Planning Factors section of this document in building multiyear projections (MYPs). All assumptions used in the development of the current fiscal reporting and MYP should be sourced, and the reasons for adopting them should be explicit and documented. Transparency is essential for maintaining an LEA's credibility, and clearly communicating and explaining budget assumptions to all stakeholders is critical.

Should district MYP assumptions include reductions in expenditures, the board of trustees should approve commitments to those reductions. To facilitate this, sample language has been provided in the appendix.

County offices should assess each district's unique circumstances and risk profiles to determine the district's ability to maintain adequate reserves. Best practices for assessing district risk factors begin with using FCMAT's Fiscal Health Risk Analysis and Key Fiscal Indicators.

Key Fiscal Indicators can be found on the FCMAT website at:

http://fcmat.org/wp-content/uploads/sites/4/2015/05/Fiscal-Health-Risk-Analysis-K-12-5-2015-final.pdf

Significant Changes Since First Interim

On January 10, 2017, Gov. Brown released his 2017-18 budget proposal that will impact second interim MYPs. The governor opened his proposal reporting that recent state revenue indicated the "tide has begun to turn" and that "the trajectory of general fund revenue growth" has declined from estimates used by the administration when the 2016-17 budget was enacted. As a result, the state faces a deficit of $2 billion unless corrective action is taken. Thus the governor proposed several adjustments, including an adjustment in the Proposition 98 spending guarantee from 2015-16 through 2017-18.

The proposal provided for an increase of $744 million in LCFF gap funding over current levels. This increase is sufficient to cover the growth in the statewide LCFF target due to the 1.48% statutory COLA yet is a significant reduction from the $2.2 billion projected in June 2016.

In addition, the proposal includes the following for 2016-17:

Deferral. In addition to a shift in one-time expenditures from prior year to adjust for a reduction in Proposition 98 guarantee, the proposal includes a one-time deferral of $859.1 million or approximately 27% of the June 2017 apportionment to July 2017, and the following funding and assumptions for fiscal year 2017-18:

One-Time Discretionary Funding. The proposal provides $287 million in one-time Proposition 98 funding for school districts, charter schools and county offices of education. These funds are intended to offset outstanding mandate reimbursement claims. The budget summary states that these funds are to be used at local discretion, "to support critical investments such as content standards implementation, technology, professional development, induction programs for beginning teachers and deferred maintenance."

Career Technical Education Funding. There are no significant changes. The proposal for 2017-18 includes the final installment of funding of $200 million for this program. The three-year grant program, which originated in 2015-16, was designed to stimulate innovation in career technical education and serve as bridge funding for LCFF grade span (9-12) adjustment implementation. Commencing with 2018-19, this additional funding will cease and school districts will be expected to support the full cost of these programs.

Charter School Growth. $93 million in Proposition 98 funding is provided for expected charter school growth.

Special Education. Proposition 98 funding decreases by $4.9 million due to a projected decrease in ADA.

Cost of Living Adjustments outside LCFF. $58.1 million in ongoing Proposition 98 funding is provided to support a 1.48% cost of living adjustment for categorical programs that remain outside of the LCFF, including Special Education, Child Nutrition, Foster Youth, Preschool, American Indian Education Centers, and the American Indian Early Childhood Education Program.

Local Property Tax Adjustments. The proposal includes 2016-17 savings of $149.2 million in Proposition 98 general fund costs as a result of higher offsetting property tax revenues and further savings of $922.7 million in Proposition 98 general fund costs in 2017-18 as a result of increased offsetting local property tax revenues.

School District Average Daily Attendance. A decrease of $168.9 million in 2016-17 Proposition 98 costs is now estimated for school districts due to lower projected ADA, with a decrease of $63.1 million in 2017-18 Proposition 98 general fund costs for school districts as a result of further projected decline in ADA.

Proposition 98 Maintenance Factor. The administration projects Test 3 years in 2016-17 and 2017-18. This would create new maintenance factor obligations of $864 million and $264 million in 2016-17 and 2017-18, respectively. The governor now projects total outstanding Proposition 98 maintenance factor will be $1.364 billion in 2016-17 and $1.628 billion in 2017-18.

Mandate Block Grant Funding. An increase of $8.5 million in Proposition 98 funding is proposed to reflect the addition of the Training for School Employee Mandated Reporters program.

Proposition 39. The proposal anticipates $422.9 million in 2017-18 to support school district and charter school energy efficiency projects. For 2013-14 through 2017-18, the measure requires half of the increased corporate tax revenues from Proposition 39 (up to $550 million per year) to be used to support energy efficiency.

Proposition 47. For 2017-18, $10.1 million is proposed to support investments aimed at improving outcomes for public school pupils in K-12 by reducing truancy and supporting pupils who are at risk of dropping out of school or are victims of crime, consistent with the provisions of Proposition 47. Proposition 47 was approved in 2014 and reduced the penalties for certain nonserious and nonviolent property and drug offenses, with a portion of any resulting state savings to be invested into K-12 truancy and dropout prevention, victim services, and mental health and drug treatment.

Proposition 56. The budget proposal provides $29.9 million to support tobacco and nicotine prevention and reduction programs at K-12 schools. Proposition 56 was approved in November 2016 and increases the per-pack cigarette tax by $2, with an equivalent increase on other tobacco products. After making specified allocations, Proposition 56 requires 2% of the remaining revenue to be used for school programs that prevent and reduce the use of tobacco and nicotine products by young people.

Instructional Quality Commission. To prioritize funding for other purposes, the budget delays the current deadlines for the commission to revise the content standards for visual and performing arts and world language, develop standards for computer science, and create a model curriculum in ethnic studies. Further, the budget delays the current deadline for the Superintendent of Public Instruction to convene a computer science strategic implementation advisory panel.

School Facilities Bond. California voters approved the Education Facilities Bond Act of 2016 (Proposition 51) in November 2016, authorizing $7 billion in state general obligation bonds for K-12 schools through the School Facilities Program (SFP). To ensure appropriate usage of all SFP bond funds and effective program accountability and oversight, the governor proposes to revise State Allocation Board and Office of Public School Construction policies and regulations to implement front-end grant agreements that define basic terms, conditions and accountability measures for participants that request funding through the SFP.

The governor also proposes that through the Budget Act, bond expenditures are to be included in the annual K-12 Audit guide. Independent auditors will verify that LEAs participating in the SFP have appropriately expended state resources. Once these measures are in place to verify that taxpayers' dollars are appropriately used, the administration will support the expenditure of Proposition 51 funds.

Child Care. The proposal pauses previously planned funding augmentations. This maintains the 2016-17 reimbursement rates and funded preschool slots through 2017-18 and postpones augmentation of rates and additional slots intended for 2017-18 until 2018-19, thus extending a three-year implementation plan into a four-year plan ending 2019-20.

Further, the proposal includes increases for non-Proposition 98 expenditures related to child care.

Also included in the proposal are two child care and four preschool proposals that are intended to address eligibility and administrative issues.

Planning Factors for 2016-17 and MYPs

Key planning factors for LEAs to incorporate into the 2016-17 budget and MYPs are listed below and are based on the latest information available.

Planning Factor	2016-17	2017-18	2018-19
COLA (Department of Finance - DOF)	***0.00%***	***1.48%***	***2.40%***
LCFF Gap Funding Percentage (DOF)	***55.28%***	***23.67%***	***53.85%***
LCFF Gap Funding (in millions)	***$2,942***	***$744***	***$1,904***
STRS Employer Statutory Rates	12.58%	14.43%	16.28%
PERS Employer Projected Rates	13.888%	**15.80%**	**18.7%**
Lottery – Unrestricted per ADA	$144	$144	$144
Lottery – Prop. 20 per ADA	$45	$45	$45
Mandated Cost per ADA for One-Time Allocations	$214	**$48**	$0
Mandate Block Grant for Districts – K-8 per ADA	$28.42	$29.87	$29.87
Mandate Block Grant for Districts – 9-12 per ADA	$56	$57.36	$57.36
Mandate Block Grant for Charters – K-8 per ADA	$14.21	$15.66	$15.66
Mandate Block Grant for Charters – 9-12 per ADA	$42	$43.36	$43.36
State Preschool Part-Day Daily Reimbursement Rate	25.06*	$25.06	$25.06
State Preschool Full-Day Daily Reimbursement Rate	40.46*	$40.46	$40.46
General Child Care Daily Reimbursement Rate	40.20*	$40.20	$40.20
*Increase of 5% effective July 1, 2016			
Routine Restricted Maintenance Account (Note: For LEA receiving SFB funds, the RRMA requirement reverts to 3% the year following receipt of funds.)	Lesser of: 3% or 2014-15 amount	Greater of: Lesser of 3% or 2014-15 amount or 2%	At Least: 3%

Proposition 98

Projections of general fund tax revenues available to fund the Proposition 98 guarantee have declined by nearly $5.4 billion over the three years ending with 2017-18, relative to levels projected with the 2016-17 Budget Act. The budget proposes a combination of adjustments designed to fund the minimum guarantee amount – but not overappropriate the guarantee – for all three years.

As a result, Proposition 98 guarantee levels have declined by $1.8 billion as follows:

- $400 million reduction in the 2015-16 guarantee
- $506 million reduction in the 2016-17 guarantee
- $953 million reduction in the 2017-18 guarantee

The governor proposes adjustments in spending over the three years to accommodate the $1.8 billion reduction. These adjustments include a shift of LCFF expenditures from June 2017 to July 2017 of $859.1 million; this deferral is designed to maintain 2016-17 programmatic expenditure levels with immediate repayment in the following month. This is proposed as a one-time deferral, and will not be carried forward.

A second accommodation will be to shift $310 million of one-time discretionary expenditures provided in the 2015-16 budget to 2016-17 as a result of the reduction of the Proposition 98 guarantee in 2015-16.

While decreasing from prior projections, the Proposition 98 guarantee will still increase by $2.1 billion in the 2017-18 year. The spending level is projected to be $73.5 billion, a $2.1 billion increase from the adjusted 2016-17 level of $71.4 billion, or about 2.9%. The K-12 share of the increase is $1.9 billion; however, almost $900 million of that will be used to pay for the 2016-17 deferral, leaving about $1 billion.

The governor proposes to allocate $744 million in 2017-18 to fund a 1.48% cost of living adjustment (COLA) to the LCFF. However, the statewide level of LCFF implementation will not increase beyond the current 96% level.

Additional proposals for education for the 2017-18 year include one-time discretionary funding of $48 per ADA, a 1.48% COLA and ADA funding for county offices of education, a final $200 million installment on the Career Technical Education Grant, charter school ADA growth, categorical program COLAs of 1.48% and other items.

State general fund savings are anticipated for projected decreases to ADA for both the Special Education program and all other school district programs.

A Proposition 98 maintenance factor is projected to occur as a result of the use of Test 3 formulas in both 2016-17 and 2017-18. Total outstanding maintenance factor is projected at $1.628 billion in 2017-18.

The 2016-17 state budget reflects savings of $149.2 million in Proposition 98 general fund costs as a result of higher offsetting property tax revenues. The governor's proposal for the 2017-18 year reflects additional offsetting property tax revenue savings of $922.7 million.

Proposition 98 continues to be the single most important determining factor in public education funding in California. With projections of future revenue growth beginning to change, it is possible that the rate of revenue increases to public education will begin a downward trend. While the distribution of such funding can affect individual school districts and county offices of education differently in the LCFF era, LEAs should be familiar with the formula and appreciate the importance of the overall guarantee and how it impacts public education funding.

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 the minimum levels are insufficient 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 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, and 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.

Still in place is the potential reserve cap triggered by Education Code 42127.01 (enacted with SB 858, statutes of 2015) should certain conditions exist. It is not expected to be in effect for fiscal years 2016-17 or 2017-18.

The maintenance of reserves well in excess of the minimum is justified as expenditures are expected to outpace revenue in the forecast years. As a result of the programmed escalation of STRS/PERS costs in their multiyear projections and beyond, many districts have designated components of their fund balance to compensate for the increase in employee compensation costs.

Negotiations

Employee compensation adjustments have been a product of the restoration of education funding over the past four years. However, the past several years of increased revenues have led to dangerous practices with regard to collective bargaining, including:

- Utilizing one-time fund balances to fund salaries.
    - Utilization of one-time funding (fund balance) for salary increases will lead to significant structural deficit and threaten district solvency.
- Crafting multiyear settlement agreements that are not sustainable due to volatile future revenue projections.
    - LCFF revenue projections for 2017-18 are much lower than were anticipated at the beginning of 2016-17. Negotiating based on uncertain future year revenues is not advised.
- Utilizing supplemental and concentration grant funds for salary settlements without providing meaningful justification of how the expenditure promotes improved or increased services for targeted pupils.

Multiple factors are making it increasingly difficult for districts to support higher salaries:

- Employee compensation costs are rising automatically
    - CalPERS/CalSTRS contributions
    - Step and column
    - Health and welfare
    - General inflation
    - Minimum wage
- Declining enrollment also results in revenue losses

Accounting for the conditions listed above, while the ***average*** district's ongoing revenues are projected to rise by only 1.48% for 2017-18, ongoing automatic costs increases for most districts are likely to exceed 4% just accounting for retirement contributions, step and column, and inflation. New revenues will not cover the new costs. Future revenues in the multiyear projection are uncertain, but continuing dramatic increases in retirement contributions are certain.

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, district solvency is paramount in negotiations and can only be maintained through careful and thorough study of district revenue and expenditure projections and the making of necessary decisions to maximize services to students with available financial resources. Cost reductions will be required for many districts in the budget year and/or the out years.

LCAP Template and the California School Dashboard

In November 2016 the State Board of Education approved a revised LCAP Template for use in developing 2017-18 LCAPs. The most significant changes include the addition of a Plan Summary, a shift from a rolling three-year plan to a static three-year plan, and the inclusion of linkages to the California School Dashboard (previously know as the LCFF Rubrics).

The Plan Summary section contains prompts for additional fiscal information that was not previously required in the LCAP. LEAs will now be required to list total anticipated LCFF revenues (per the FCMAT LCFF Calculator) and total budgeted general fund expenditures. The Plan Summary must also include some description of how budgeted general fund expenditures that are ***not*** included in the LCAP Actions and Services will be spent.

In addition to the fiscal information above, the Plan Summary must also contain summary descriptions of key elements of the LCAP, and some explicit references to the California School Dashboard, the web-based system and data display that is the cornerstone of the state's new accountability system for public schools. LEAs received initial login credentials to privately view their dashboard data in February, and the dashboard is expected to go public in March.

The change to a static three-year plan means that the LCAPs for the next three fiscal years will each cover the same three-year period (2017-18, 2018-19, and 2019-20). One implication of this change is that after 2017-18, the three years of the LCAP will not match the three years of the budget multiyear projection until a new three-year static LCAP cycle starts in 2020-21.

The new LCAP template, including instructions in the appendix, can be downloaded at http://www.cde.ca.gov/fg/aa/lc/documents/approvedlcaptemplate.doc. Details on the requirements for LCAP approval can be found in the CCSESA LCAP Approval Manual at http://ccsesa.org/wp-content/uploads/2016/12/CCSESA-LCAP-Approval-Manual-final-2017-18.pdf. For further information about the dashboard, see the presentation at https://www.caschooldashboard.org/Content/orientation.pdf, which includes an overview of the system with screenshots.

Local Control Funding Formula

Full implementation of the LCFF is now projected by the governor to be complete by 2020-21. While the economy has improved quickly, revenue increases to the state now have slowed, underperforming projections. In his January budget proposal, the governor revised projections for gap closure in the out years. Districts should incorporate these revised figures into their MYPs to understand their potential impact on district multiyear reserves.

The figures below have been updated to reflect these changes as outlined in the most recent FCMAT LCFF Calculator. It is recommended that LEAs use the LCFF Calculator located on the FCMAT website at http://fcmat.org/local-control-funding-formula-resources/. Additional information about LCFF can be found at http://www.cde.ca.gov/fg/aa/lc/.

Grade Level	2016-17 Target Base Grant	2016-17 Target GSA	2017-18 Target Base Grant	2017-18 Target GSA	2018-19 Target Base Grant	2018-19 Target GSA
Grades TK-3	$7,083	$737	$7,188	$748	$7,361	$766
Grades 4-6	$7,189		$7,295		$7,470	
Grades 7-8	$7,403		$7,513		$7,693	
Grades 9-12	$8,578	$223	$8,705	$226	$8,914	$232

FCMAT has updated COLA and gap funding figures based on the Governor's proposed budget. These figures are found below and at: http://fcmat.org/local-control-funding-formula-resources/.

While the annual gap-closure percentage estimates may seem large, the remaining gap to fill has shrunk significantly. This means that gap-closure percentages will increase, yet result in smaller actual funding increases for school districts.

	Estimate 2016-17	Estimate 2017-18	Estimate 2018-19	Estimate 2019-20	Estimate 2020-21
LCFF Gap Funding Percentage	55.28%	23.67%	53.85%	68.94%	100%
Annual COLA	0.00%	1.48%	2.4%	2.53%	2.66%

2016-17 One-Time Funding

Mandate Reimbursement

$1.28 billion is allocated to offset the outstanding mandate backlog. The CDE has calculated a per-student allocation rate of $214.55 per ADA. The intent is for these one-time funds to be used for deferred maintenance, professional development, induction for beginning teachers, instructional materials, technology and other support for the state content standard implementation; however, these funds are not restricted.

College Readiness Block Grant

The College Readiness Block Grant is established to provide California's high school pupils, particularly unduplicated pupils as defined in Education Code (EC) Sections 42238.01 and 42238.02, additional supports to increase the number who enroll at institutions of higher education and complete an undergraduate degree within four years. No school district, county office or charter school will receive less than $75,000 if they served at least one unduplicated student in 2015-16. Preliminary funding is posted on the CDE website at: http://www.cde.ca.gov/fg/fo/r14/collegereadiness16result.asp

As a condition of receiving the grant, LEAs are required to report to the state Superintendent of Public Instruction by January 1, 2017, on how they will measure the impact of the funds received on their unduplicated pupils' access and successful matriculation to institutions of higher education, as identified in their plan (as required by EC Section 41580).

The survey is posted at: http://surveys2.cde.ca.gov/s.asp?k=147147028192

Truancy and Dropout Prevention

$18 million additional in one-time Proposition 98 funds was authorized in the 2016-17 budget and is aimed at reducing truancy and supporting pupils who are at risk of dropping out of school. Grant funding will be provided to identify and implement evidence-based, nonpunitive programs and practices to keep the most vulnerable pupils in school.

Pursuant to AB 1014 and SB 527, statutes of 2016, the application process is forthcoming. Applications will be required to include information about the pupil and school needs, proposed activities the LEA will undertake with grant funds, how the proposed activities will support the goals contained in the LEA's LCAP, and how the LEA will measure outcomes. Priority will be given to LEAs with high rates of chronic absenteeism, communities with high crime rate, and those with significant foster youth.

Grants are for three years of funding and will require a minimum match of 20% cash or in-kind.

Teacher Workforce Development: Classified School Employees Credentialing Program

One-time Proposition 98 funding of $20 million is available to establish the California Classified School Employees Credentialing Program and provide grants to K-12 LEAs to recruit noncertificated school employees to participate in a teacher preparation program and become certificated classroom teachers in California public schools.

Grants will be allocated at up to $4,000 per participant per year for up to 1,000 participants.

Participating employees must have an associate's degree or higher or have completed two years of postsecondary education. They must commit to completing a bachelor's degree and teaching credential, and complete one year of classroom instruction in the LEA providing the assistance.

California Center on Teaching Careers

Allocates a total of $5 million in one-time Proposition 98 funds as a multiyear award to establish a California Center on Teaching Careers to recruit qualified individuals into the teaching profession. Recruitment priorities will be in the areas of math, science, and bilingual education, and for low-income schools.

Water

$9.5 million is provided in one-time Proposition 98 funding for the State Water Resources Control Board to award grants to LEAs to improve access to quality drinking water in schools. Recommended uses include water bottle filling stations and improved filtering and treatment for water fountains. Priority is given to schools in small disadvantaged communities and projects that are most effective in increasing access to safe drinking water in schools. For more information, please see the following webpage:
http://www.waterboards.ca.gov/drinking_water/services/funding/SRF.shtml

Breakfast Startup Grant

$2 million is approved in one-time Proposition 98 funding to enhance the existing $1 million School Breakfast Startup Grant program through 2018-19. Funds are to address additional need in the program and will be prioritized to school districts and county offices with over 60% unduplicated pupil count to start or expand breakfast served after the start of the school day.

Cash Management

The governor's January budget proposal for 2017-18 includes a one-time principal apportionment deferral of $859.1 million from June 2017 to July 2017. This translates to **approximately 27%** of the June P-2 principal apportionment payment. The payment delay is expected to be just a few days into July.

Cash flow monitoring is necessary to ensure that sufficient cash is available to meet obligations.

The State Controller's Office has posted estimated payment dates for K-12 principal apportionments, lottery apportionments, and Education Protection Account Proposition 30 apportionments through December 2017. The table below illustrates state apportionments through December 2017.

Months	Principal	Proposition 30 Education	Lottery
January 2017	1/27/2017		
February 2017	2/28/2017		
March 2017	3/28/2017	3/23/2017	3/30/2017
April 2017	4/26/2017		
May 2017	5/26/2017		

June 2017	6/30/2017	6/22/2017	6/28/2017
July 2017	7/27/2017		
August 2017	8/29/2017		
September 2017	9/27/2017	9/22/2017	9/29/2017
October 2017	10/27/2017		
November 2017	11/28/2017		
December 2017	12/27/2017	12/22/2017	12/29/2017

The CDE provides a monthly update of estimated cash flow for state and federal categorical programs that can be downloaded from the following webpage: http://www.cde.ca.gov/fg/aa/ca/estcashflow.asp. The schedule provides cash flow estimates for the following programs: Mandate Block Grant, one-time mandate reimbursements, Adult Education Block Grant, College Readiness Block Grant, and Mental Health.

Please note that federal apportionments are contingent upon timely reporting under CDE's Federal Cash Management Data Collection system: http://www2.cde.ca.gov/cashmanagement/default.aspx. The 2016-17 reporting windows are as follows:

- Reporting Period 1: July 10 – July 31
- Reporting Period 2: October 10 – October 31
- Reporting Period 3: January 10 – January 31
- Reporting Period 4: April 10 – April 30

Temporary taxes from Proposition 30 that are deposited into the Education Protection Account (EPA) will continue through the 2018-19 fiscal year. In 2018-19, Proposition 55 will go into effect and revenues will be deposited into the EPA through 2030. The Department of Finance's EPA estimates for 2015-16, 2016-17, and 2017-18 are provided in the table below. Detailed information related to K-12 entitlements and apportionments can be found on the CDE website: www.cde.ca.gov/fg/aa/pa/epa.asp

	2015-16	2016-17	2017-18
K-12 (89% of total)	$7,201,897	$6,661,169	$6,070,703
Community Colleges (11% of total)	$890,122	$823,290	$750,312
Totals	$8,092,019	$7,484,459	$6,821,015

Grade Span Adjustment (GSA)

The LCFF provides a 10.4% increase in base grant funding for grades K-3 (including TK).

To receive these funds districts must maintain enrollment at every school site at an average of no more than 24 students per class at full implementation of LCFF. School districts have the authority to collectively bargain an alternative, locally defined class size.

School districts that do not have an alternative collectively bargained class size in place must annually make progress to reach school site average enrollment of 24 students per class. Progress is measured by the percentage closure used for gap funding. A school district can accelerate the progress but at minimum must meet the annually calculated progress.

The penalty for noncompliance is severe, as it includes the loss of <u>all K-3 GSA funding districtwide.</u>

Home to School Transportation

The maintenance of effort for all districts receiving transportation funds remains in effect as it does not expire.

Federal Funding

The 115th Congress began on January 3 and a new administration began on January 20.

At the close of the lame duck session of the 114th Congress, a continuing resolution was adopted running through April 28, 2017. In March and early April, the 115th Congress will have to act to finish funding for the remainder of fiscal year 2017 by completing appropriations bills, assembling an omnibus appropriations bill, or passing another continuing resolution through September 30, 2017. Fiscal year 2017 federal funding provides funding for most education programs, including Title I and IDEA, for school year 2017-18. The major exception is impact aid, which is funded by the fiscal year 2017 continuing resolution on a current year basis.

Summary of Continuing Resolution: The 114th Congress adjourned after passing a continuing resolution through April 28, 2017. Education funding for IDEA, Title I and other education programs remains at fiscal year 2016 levels minus an across-the-board sequester cut of 0.19%. The original continuing resolution that expired December 9 included a 0.496% sequester cut.

Final fiscal year 2017 funding levels for all education programs including IDEA, Title I and Career and Technical Education will be made by the 115th Congress. The 114th Congress did not complete work on a reauthorization of the Perkins Career and Technical Education program and did not include an extension or funding for the Secure Rural Schools (SRS) program in the fiscal year 2017 continuing resolution. School districts have received the last SRS funding for fiscal year 2015. Without action by the 115th Congress to extend and fund the SRS program for fiscal year 2016-17, school districts in rural communities will not receive any additional SRS funding. In the absence of SRS, payments to states revert to pre-existing law under the 1908 Act that mandates 25% payments to the states from receipts from national forests in each state.

For budgeting purposes, the following multiyear assumptions are recommended for LEAs with respect to federal education funding:

- **2016-17**: Small increases in funding for IDEA (approximately $40 million statewide) and Title I (approximately $50 million statewide); level funding for Career and Technical Education. No Budget Control Act sequestration cuts.

- **2017-18:** Final fiscal year 2017 funding will be determined by the 115th Congress in March and early April, as Congress acts to replace the continuing resolution expiring on April 28. Level funding minus a small across-the-board sequester cut of 0.19% is in effect. Final fiscal year 2017 appropriations could continue level funding and a possible sequester cut for the remainder of the fiscal year.

CAUTION: The January 18, 2017 letter from the CDE regarding the Every Student Succeeds Act (ESSA) provides a fiscal update for Mandatory Set-Aside for School Improvement.

Title I: Based on guidance from the U.S. Department of Education.

Without factoring in entitlement changes based on census data, some LEAs could see reductions of 12% to 22% due to the increased set-aside and factoring in hold-harmless per ESSA Section 1122(c).

Title II: Some districts may experience large increases and others may experience large decreases due to redistribution of funds previously tied to the hold-harmless provision.

- **2018-19:** As Congress completes fiscal year 2017, the new administration and 115th Congress will also begin work on fiscal year 2018 budgets in April. Level funding projections are recommended, with sequestration potentially on the table. In addition, if the new administration and Congress prioritize defense spending and exempt it from sequestration, there may be a more negative impact on domestic programs including education.

More information on the continuing resolution is available at https://www.congress.gov/bill/114th-congress/house-bill/2028

CALPADS

Because CALPADS data is used in a variety of revenue calculations for LEAs, it is imperative that financial and student data personnel review the data both for accuracy and completeness.

Key Upcoming Deadlines:

- Fall 1 amendment window is closed**.** LEAs must have certified Fall 1 data by January 27, 2017.

- Fall 2 certification deadline is March 3, 2017, with an amendment window that closes on March 31, 2017.

If an LEA received an audit adjustment for 2015-16 CALPADS data, it must use the latest version of the Principal Apportionment Data Collection software to report the change. An auditor letter of concurrence must accompany audit adjustments when the adjustment is for an increase.

- Prior year corrections deadline is March 1, 2017.

A certification and amendment calendar is posted on the CDE webpage: http://www.cde.ca.gov/ds/dc/es/subcal.asp

More information about a variety of CALPADS topics can be found at:
http://www.cde.ca.gov/ds/sp/cl/communications.asp

Special Education

The governor's budget includes a COLA of 1.48%, which is estimated to be a $7.88 per ADA increase, bringing the AB 602 statewide target rate to $540.56 per ADA.

The actual total funding to Special Education is reduced by $4.9 million due to a projected decrease in statewide ADA.

The governor proposes to engage stakeholders to give feedback on the current Special Education finance system and will include the recommendations from the PPIC report and the Special Education Task Force report.

Districts of Choice

Under the District of Choice (DOC) program, established by AB 19 (Quackenbush), Chapter 160, Statutes of 1993, a school board may declare the district to be a DOC willing to accept a specified number of interdistrict transfers. Districts that have designated themselves as such should be aware that statutory authorization to operate the program sunsets on June 30, 2017 unless the Legislature takes action to extend it. Districts need to consider the reduction in funding in their 2017-18 budget and MYP.

Basic Aid

As part of the enacted 2015-16 state budget, EC 42238.03(e) was amended to clarify that the minimum state aid (MSA) guarantee is intended to remain in effect indefinitely for basic aid districts.

Basic aid districts are eligible for the additional one-time mandate discretionary funds, as well as to participate in competitive grant proposals, in the governor's 2016-17 budget.

Districts receiving funding under the District of Choice program should be aware that statutory authorization to operate the program sunsets on June 30, 2017 unless the Legislature takes action to extend it. Districts need to consider the reduction in funding in their MYP.

Some districts may be transitioning out of basic aid status and will need to work closely with their county office of education to track the budgetary and cash flow implications of the transition. The guarantee of a minimum of $200 per ADA from the Education Protection Account (EPA) is dependent on basic aid status, and districts that transition out of basic aid will lose additional EPA revenue for every state dollar they receive as a state-funded LCFF district.

In addition, under current law, districts that were basic aid in 2012-13, and lost their basic aid status during transition to full implementation, will continue to have their MSA amount reduced by their 2012-13 fair share reduction amount.

As LCFF rollout continues, all districts need to have systems to implement LCAP actions, track data for the annual update and conduct ongoing stakeholder engagement to ensure successful implementation.

Charter Schools

On January 18, 2017 the California Supreme Court let stand a 2016 appeals court decision restricting charter schools from operating resource centers outside of their authorizer's geographic boundaries.

Anderson Union High School District versus Shasta Secondary Home School sought clarification on the ability of an independent charter to operate resource centers outside the boundaries of the authorizing district.

Due to the Supreme Court's decision to let stand the appeals court decision, charters are not permitted to operate resource centers or other sites outside their authorizing district's boundaries except in very narrow exceptions prescribed in the charter school law.

An LEA with an authorized charter school(s) operating outside its boundaries but within the same county should seek legal counsel to determine the operational and practical implications of this ruling.

Necessary Small Schools

EC Section 42238.03(e) was amended by AB 104 to authorize minimum state aid after full transition to LCFF. The minimum state aid guarantee calculation will continue to include the deficited 2012-13 Necessary Small School (NSS) allowances, regardless of the current year NSS status, which may provide additional state aid to some districts until their LCFF net state aid amount surpasses the minimum state aid guarantee calculation.

EC Section 42285(4)(b)(3) establishes eligibility for NSS funding for a high school that is less than 287 students, is the only comprehensive high school in a unified district and has 50 or fewer pupils per square mile of the school district territory. It sunsets July 1, 2017. EC Section 42280 allows funding based on prior year eligibility, so schools impacted by the sunset provision can expect to receive NSS funding in 2017-18 if they met the funding requirements in 2016-17.

Child Care and Preschool

The 2016-17 Budget Act provides $3.7 billion for child care and preschool programs: $1.8 billion for preschool programs, $1.8 billion for child care programs, and $89 million for support programs. These are the key budget changes from the 2016-17 Budget Act:

- **Reimbursement Rates:** The 2016-17 budget provides $68 million for a 10% increase to the standard reimbursement rate starting January 1, 2017. This will be applied as a 5% increase effective July 1, 2016. The new rate for a full-day, center-based State Preschool slot is $10,115 per year, whereas the new rate for a full-day, center-based General Child Care slot for a preschool-age child is $10,050 per year.

- **Regional Market Rate (RMR) Increases:** The 2016-17 budget provides $56 million to increase the RMR to the 75th percentile of the 2014 survey starting January 1, 2017. The budget package includes a two-year hold harmless provision such that providers receive the higher of the old or new rates. Trailer legislation specifies that after July 1, 2018, all rates are set at the 75th percentile of the 2014 survey.

- **License Exempt Rates:** The budget provides $14 million to increase license-exempt rates from 65% to 70% of the family child care home rates starting January 1, 2017.

- **State Preschool Slots:** The budget provides $34 million for the State Preschool program to annualize the cost of preschool slots added January 1, 2015. The budget also provides $8 million for 2,959 new full-day State Preschool slots at LEAs starting April 1, 2017.

- **CalWORKs Child Care:** The budget adjusts the CalWORKs child care budget down by $25 million compared to the 2015-16 Budget Act due to changes in caseload and underlying cost of care.

- **Additional Funding for Quality Improvement Activities:** Recent changes in federal law and additional federal funds the state is receiving require the state to spend $9.2 million more on quality improvement activities than last year, bringing total quality improvement spending in 2016-17 to $78.2 million. The budget also provides $1.4 million one-time Proposition 98 general funds for the Los Angeles Trade-Tech Community College to provide job training, mentoring, and college courses to child care workers. These funds are available for expenditure through June 30, 2019.

The governor’s proposed budget for 2017-18 included financial adjustments as well as policy changes that foster administrative efficiencies and better align child care and early education programs.

Policy proposals:

- Authorize the use of electronic applications for child care subsidies, making it less burdensome for eligible families to access care and more efficient for providers to process applications.

- Allow children with exceptional needs whose families exceed income eligibility guidelines access to part-day state preschool if all other eligible children have been served. This allows part-day State Preschool providers the flexibility to fill unused slots with other students who would benefit from early intervention or education.

- Align the state's definition of homelessness with the federal McKinney-Vento Act for purposes of child care eligibility. Many providers receive both federal and state funds, and different definitions of homelessness can be confusing.

- Eliminate licensing requirements for State Preschool programs utilizing facilities that meet transitional kindergarten facility standards, specifically K-12 public school buildings.

- Allow State Preschool programs flexibility in meeting minimum adult-to-student ratios and teacher education requirements, allowing for alignment with similar transitional kindergarten requirements.

- Simplify the process by which school districts can align program minutes for State Preschool and transitional kindergarten students.

Significant financial adjustments proposed for 2017-18:

- Full-Year Implementation of 2016 Budget Act Investments — An increase of $50.5 million non-Proposition 98 general fund and $23.5 million Proposition 98 general fund to reflect full-year costs of new policies implemented part way through the 2016-17 fiscal year. These costs are associated with an update of the Regional Market Reimbursement Rate to the 75^{th} percentile of the 2014 regional market rate survey (beginning January 1, 2017), and an increase of 2,959 slots for full-day State Preschool (beginning April 1, 2017).

- Pause Child Care Funding Increases in 2017-18 — Maintain reimbursement rates for child care providers at 2016-17 levels, pausing rate increases in 2017-18. This includes maintaining the Regional Market Reimbursement Rate at the 75^{th} percentile of the 2014 regional market rate survey, maintaining the Standard Reimbursement Rate at the full-year equivalent rate provided in 2016-17 (a 5% increase over the prior year), and forgoing 2017-18 cost-of-living adjustments for child care providers. Additionally, pause the addition of 2,959 full-day State Preschool slots planned to begin on April 1, 2018. In total, these proposals save $121.4 million non-Proposition 98 general fund and $105.4 million Proposition 98 general fund.

- Stage 2 — An increase of $35.8 million non-Proposition 98 general fund in 2017-18 to reflect increases in both the number of CalWORKs Stage 2 cases and the cost per case. Total cost for Stage 2 is $505 million.

- Stage 3 — An increase of $1.6 million non-Proposition 98 general fund in 2017-18 to reflect an increase in the cost per case, despite a decline in the number of CalWORKs Stage 3 cases. Total cost for Stage 3 is $302.5 million.

- Federal Child Care and Development and TANF Funds — A net increase of $4.8 million federal Child Care and Development and $120.1 million federal TANF funds in 2017-18. Total federal funding is $736.6 million.

Career Technical Education

Updated Grant Award Notifications (GAN) were distributed to LEAs in October 2016. The new award letter extends the use of year one funding to June 30, 2019. Organizations that did not receive an updated GAN should contact their assigned CDE education programs consultant.

If their final award amount has changed, LEAs are required to provide matching funds based on this new amount. It is critical to remember that the LEA's funding contribution increases over the course of the grant.

An illustration of these incremental matching fund increases is below:

CTEIG Match Requirements		
July 1, 2015 to June 30, 2019	$400 million	1-to-1
July 1, 2017 to June 30, 2018	$300 million	1-to-1.5
July 1, 2018 to June 30, 2019	$200 million	1-to-2

For specific information on the requirements for the Annual Progress Report, please see the CDE/CTE website.

Educator Effectiveness

If the district expends funds for this program, the plan shall be explained in a public meeting of the governing board before it is adopted in a subsequent public meeting prior to the end of the fiscal year in which the expenditures occurred.

On or before July 1, 2018, an LEA will submit a detailed expenditure report. The final expenditure report template can be found on CDE's website: http://www.cde.ca.gov/fg/aa/ca/educatoreffectiveness.asp

The Educator Effectiveness Final Expenditure Report online reporting application is now available and can be found at http://www.cde.ca.gov/pd/ee/eefer.asp

Proposition 39

All LEA facilities, including leased facilities, are eligible. In addition to classrooms, other school building areas such as auditoriums, multipurpose rooms, gymnasiums, cafeterias, kitchens, pools, and special purpose areas (school/district office, library, media center, and computer and science labs) can be considered for energy efficiency measures and clean energy installations.

Guidelines can be accessed at the website listed below.

Schedule

Program Fiscal Years	**Through 2017-18**
Two fiscal year combined funding award requests	September 1 (annually)
Award calculation completed by CDE	October 30 (annually)
SSPI begins allocating awards for approved multiple-year energy expenditure plans	January (annually)
LEAs' project completion reporting	Ongoing
LEAs' expenditure reports to Citizens Oversight Board and Energy Commission	October 1 (annually beginning 2015)
Final Deadline to Submit Plan for Approval	August 1, 2017
LEAs' final encumbrance date	June 30, 2018
Final date all projects must be complete	June 30, 2020
LEAs' final project reporting date	June 30, 2021

For additional information and a listing of LEA funding please visit the California Energy Commission's webpage at: http://energy.ca.gov/efficiency/proposition39/ and the CDE's webpage at http://www.cde.ca.gov/fg/aa/ca/prop39cceja.asp.

Retirement

STRS / PERS Retirement, Budget & MYP

On December 21, the CalPERS Board took action to approve a 0.5% reduction in its investment return assumption, from 7.5% to 7.0%. CalPERS estimates that for every 0.25% reduction in its assumed rate of return on investments, a 1% increase in the school employer contribution rate would be required to maintain the funded level.

The effect of the decreased return assumption will be implemented over the next three years, with the impact on the PERS pension fund starting in 2017, and the impact to local government and school employers starting in fiscal year 2018-19. The multiyear rollout allows school districts to make the adjustment in their MYPs.

Below are the anticipated CalPERS Employer Contribution Rates reflecting the increases:

Fiscal Year	CalPERS Projected Employer Contribution Rate
2016-17	13.888%
2017-18	15.8%
2018-19	18.7%
2019-20	21.6%
2020-21	24.9%
2021-22	26.4%
2022-23	27.4%
2023-24 going forward	28.2%

On February 1 the CalSTRS Board lowered its earnings forecast from 7.5% to 7% following a similar action by the CalPERS Board mentioned above. Unlike the CalPERS action that raised employer contribution rates, the CalSTRS employer rates remain unchanged for Second Interim and are expected to remain unchanged until the 2020-21 fiscal year. Post California Public Employees' Pension Reform Act (PEPRA) certificated employees hired since 2012 will have their employee contribution increase by 0.5% for 2017-18, and another 0.5% in 2018-19 to a total of 1% over the two-year period.

Below are the CalSTRS Employer Contribution Rates:

Year	Employer
2016-17	12.58%
2017-18	14.43%
2018-19	16.28%
2019-20	18.13%
2020-21 going forward	19.10%

Although the governor acknowledged further deterioration to the condition of STRS and PERS in his Governor's Message on the proposed 2017-18 state budget, the governor proposes no additional revenue to offset the increased employer retirement contributions.

When fully enacted, the new rates will achieve what the state Legislature intended four years ago with the passage of PEPRA, with school districts bearing 70% of the increased contributions, the state bearing 20%, and employees bearing 10%.

COEs should recommend the use of the most recent SSC Dartboard for districts' Second Interim MYPs. Districts should include the information regarding increased STRS/PERS rates when negotiating with employee associations during salary/benefit bargaining or during any bargaining that will negatively affect a district's current and out-year fund balance. Additionally, COEs should recommend that districts maintain a five-year MYP to prepare for increased STRS/PERS obligations.

CDE has provided the state's on-behalf CalSTRS contribution rate as a courtesy to LEA staff and auditors since 1999 because CalSTRS did not provide the rate at that time. Recently, it was brought to the CDE's attention that CalSTRS started publishing the on-behalf contribution rates. However, the rates published by CalSTRS were different than the rates the CDE calculated. In August, the CDE and CalSTRS staff met to discuss the issue, and both agencies agreed that CalSTRS should be the authoritative agency to calculate and publish the on-behalf contribution rate, which can be found on the CalSTRS FAQ website: http://www.calstrs.com/general-information/gasb-67-68-frequently-asked-questions

Adult Education Block Grant

The final budget for 2016-17 did not appropriate any additional funding to schools. However, $5 million was appropriated from the general fund to the Chancellor of the California Community Colleges and the Superintendent of Public Instruction to jointly select a community college district, school district, county office of education, or adult education consortium to provide statewide leadership for community college districts and LEAs participating in the Adult Education Block Grant Program. The funds allocated must be expended by the selected community college district or LEA to provide leadership activities in the 2016-17, 2017-18, and 2018-19 fiscal years.

All LEAs participating in the Adult Education Block Grant Program are required to fulfill the following criteria to receive an apportionment:

- Per EC Section 84906(a), have approved an adult education plan that addresses that fiscal year, with detailed information as specified in EC Section 84906(b).

- Per EC Section 84913, use these funds on only the seven following areas:

    1. Elementary and secondary basic skills, including classes required for a high school diploma or high school equivalency certificate;

    2. Programs for immigrants eligible for educational services in citizenship, English as a second language, and workforce preparation;

    3. Programs for adults, including older adults, for entry or re-entry into the workforce;

    4. Programs for adults, including older adults, to develop knowledge and skills to assist elementary and secondary school children to succeed academically;

    5. Programs for adults with disabilities;

    6. Short term career technical educational programs with high employment potential;

    7. Programs offering pre-apprenticeship training, in coordination with apprenticeship program(s), as specified.

An LEA will also be required to adhere to specified requirements to maintain its consortium membership.

The governor’s 2017-18 proposed budget makes no new increases for the Adult Education Block Grant funding.

Audit Requirements

The K-12 Audit Guide Committee convened by the State Controller’s Office develops proposed audit procedures to implement legislative requirements. The Education Audit Appeals Panel (EAAP) ultimately must approve the committee’s recommendations.

At its June 2016 meeting, the EAAP adopted the permanent regulations for the 2016-17 Audit Guide, which is available at www.eaap.ca.gov. These changes will be effective July 1, 2016 for the annual 2016-17 fiscal year audit.

The changes to the 2016-17 Audit Guide are as follows:

- Section R, Educator Effectiveness, is amended to add specific years, 2015-16 and 2016-17, to the directive that auditors confirm whether the LEA developed a plan for Educator Effectiveness expenditures.

- Section W, Unduplicated Local Control Funding Formula Pupil Counts, is amended to authorize auditors to select another student for a representative sample to replace selected students who have transferred to another LEA, in lieu of obtaining the needed information from the new LEA.

- Section Z, Immunizations, is amended to refer to current medical exemptions and personal beliefs exemptions filed before January 1, 2016, from measles testing; and to delete the personal beliefs exemption as to the T-dap vaccination, in accordance with SB 277.

On November 18, 2016, the State Controller's Office submitted proposed changes to the EAAP.

Proposed changes for 2016-17 are as follows:

- Section S. California Clean Energy Jobs Act – Technical amendment – Reference the Multiyear Schedule and website, final project completion report, and reference California Clean Energy Program Implementation Guidelines applicable to the audit year.

- Section BB. Mode of Instruction – Technical amendment – Clarify if ADA reported to CDE as classroom-based instruction was generated in full compliance with nonclassroom-based, then LEA should report ADA appropriately and exclude ADA from classroom-based.

- Mental Health Expenditures – New addition – Procedure to verify funds expended were used to provide mental health related services in the 2016-17 fiscal year. These audit procedures shall be included in future fiscal years if the Controller recommends the addition of these procedures pursuant to subdivision (a) of Section 14502.1.

Proposed changes for 2017-18 are as follows:

- Section C. Kindergarten Continuance – Technical amendment – Clarify procedure to obtain a list of pupils who turned 6 years old by September 1 and were enrolled in kindergarten for the year audited for testing of kindergarten continuance forms.

- Section R. Educator Effectiveness – Amendment – Amend procedure 1 to include "2017-18" in determining if the LEA developed and adopted a plan. Add procedure to verify LEA submitted the detailed expenditure report to CDE.

- Section S. California Clean Energy Jobs Act – Amendment – Add procedure #7 where if an approved energy expenditure plan project is not yet completed, verify if the LEA submitted an annual progress report.

- Section Y. Independent Study – Course Based – Amendment – Require an LEA to be audited for two consecutive years when operating an independent study course based program. Thereafter, the program will be audited if the number of units of ADA reported is material as shown in the materiality table.

- Section Z. Immunization – Section deleted – If there are significant findings in 2015-16 and/or 2016-17, CDE may propose that the procedures be included in the audit guide for 2018-19.

- Schedule of Charter Schools – Amendment – identify the charter school number for each charter school listed.

On January 19, 2017, the Office of Administrative Law approved the emergency regulations for the 2016-17 supplemental audit guide. see http://eaap.ca.gov/.

Summary

As stated in the Introduction, this edition of the Common Message is intended to provide information and guidance to assist LEAs in developing 2016-17 Second Interim reports and their MYPs. In the foreseeable future, funding growth is expected to be limited as LCFF target funding is approached and projections indicate a leveling of state revenue; employer contributions to retirement benefits are scheduled to rise annually through 2024; and requirements to continually improve academic performance remain. More than ever, attention must be paid to out-year projections and the impact of current decisions within the control of local decision makers, as well as factors outside the control of the LEA. To maximize success, districts will need to use resources with intent and adhere to prudent fiscal plans.

Appendix

Approval of Budget Reductions

In submitting the 2016-17 Second Interim Report, the Board understands its fiduciary responsibility to maintain fiscal solvency for the current and subsequent two fiscal years. If necessary, it is recognized that based on the 2017-18 Proposed Governor's Budget and the expected increase in ongoing district costs, the school district will implement $(__________) in ongoing budget reductions in 2017-18 and an additional $(__________) reductions in 2018-19 to maintain fiscal solvency. It is further recognized that the school district will submit a revised detailed list of Board approved ongoing budget reductions with the 2016-17 Second Interim Report.