YPI CHARTER SCHOOLS
EXECUTIVE DIRECTOR'S REPORT

January 29, 2018

The mission of the YPI Charter Schools (YPICS) is to prepare students for academic success in high school, as well as post--secondary education; prepare students to be responsible and active participants in their community; and enable students to become life-long learners. Students at YPI Charter Schools will become active citizens who characterize the ideals of a diverse and democratic society. Students will provide service to their community, take responsibility for their own learning, and develop the habits of mind and body that will empower them to be successful in high school and beyond.

CCSA:

The California Charter Schools Association (CCSA) issued the following statement in response to the resignation of LAUSD Superintendent Dr. Michelle King:

"As a Los Angeles Unified graduate, life-long public-school educator, and the first African American woman to lead the district, Dr. Michelle King's work in public education in Los Angeles has been truly inspiring. As Superintendent, Dr. King spearheaded new and innovative efforts to improve Los Angeles' public education system, including the District's first-ever Promising Practices Forum, which brought L.A. Unified charter school and district educators together to share best practices. Dr. King has been a strong supporter of education choice and the replication of innovative school models to best meet the needs of each student. We thank Dr. King for her decades of fighting for our students. Our thoughts are with Dr. King and her family during this difficult time."

Jed Wallace, President & CEO, California Charter Schools Association

Congress Votes to Preserve PABs & NMTCs

Congress passed the final version of the tax bill that will soon be signed by the President. The bill is imperfect, but we are grateful that Congress protected Private Activity Bonds (PABs) and New Market Tax Credits (NMTCs). These financial tools are vital to acquiring safe and appropriate charter school space for students. The elimination of Qualified Zone Academy Bonds (QZABs) and Advance Refunding will be a hardship for some of our schools. CCSA will continue to work with the National Alliance for Public Charter Schools to develop additional financing tools that will serve our schools, students, and our communities more effectively.

More than 300 charter school leaders, teachers, parents, and supporters wrote or called their congressmember to protect charter public schools. Our movement and our students are stronger because of you. A special thank you also goes to Ruth Dutton of Sycamore Valley Academy who worked with California Congressmember Devin Nunes to protect charter public schools. Thank you all for your advocacy on behalf of California's charter public school students.

NATIONAL:

From the National Alliance for Public Charter Schools –

National Alliance Statement on Tax Plan

Washington, D.C.- National Alliance for Public Charter Schools President and CEO Nina Rees released the following statement on the Tax Cuts and Jobs Act:

"We are grateful that Congress protected Private Activity Bonds (PABs) and New Market Tax Credits (NMTCs) in the final tax bill that will soon be signed by the President. Though imperfect, these financial tools are vital to acquiring safe and appropriate charter school space. The elimination of Qualified Zone Academy Bonds (QZABs) and Advance Refunding will be a hardship for some of our schools. We look forward to working with Congress in the coming year to develop financing tools that will serve our schools, students and taxpayers more effectively."

STATE:

From School Services of California –

UCLA ECONOMISTS FORECAST "SUNNY 2018, CLOUDY, 2019"

Acknowledging that they hope to be as accurate as modern day meteorologists, economists with the UCLA Anderson Forecast are predicting a sunny 2018 U.S. economy followed by a cloudy 2019.

The National Forecast

On December 6, 2017, UCLA released its quarterly forecast for the U.S. and California economies. David Shulman, the lead economist for the national forecast, said that real economic growth for the nation would continue at a 3% pace through the second quarter of 2018, propelled by strong equipment spending, which is currently running at an 8% rate. This growth in the gross domestic product (GDP), however, will fade in 2019 as the economy bumps up against labor supply constraints. By the fourth quarter of 2019, the U.S. economy will slow to 1.4%, according to UCLA.

Growth in U.S. employment is expected to continue, with nonfarm employment increasing from $146.5 million in 2017 to $150.2 million in 2019. The unemployment rate, which was 4.1% in November 2017, is expected to fall to 3.7% by the fourth quarter of 2018 and then rise to 4.2% just 12 months later.

Shulman commented that there is still considerable uncertainty about the specifics of the federal tax overhaul, which they dubbed the measures in the House and Senate the "Lawyers and

Accountants Relief Act" and the "Leave No Lobbyists Behind Act." For purposes of modeling the impact of the tax package on the U.S. economy, the measure was assumed to contain a $1.5 trillion tax cut over 10 years, with a corporate tax rate of 25%. However, Shulman speculated that the final measure could cut taxes as much as $2.2 trillion.

Over the long run, UCLA forecasts rising federal deficits, given the magnitude of the tax cuts. However, in 2018 the federal deficit could actually fall by $100 billion to $200 billion as a result of the additional tax revenues on repatriated corporate profits.

Shulman indicated that he expected Jerome Powell, the newly appointed chairman of the Federal Reserve (Fed), to follow the fiscal policies of Janet Yellen, although he might take a more relaxed view of federal regulatory policies. The UCLA forecast assumes that the Fed will raise the federal funds rate by 0.25% at its December 2017 meeting and then adopt three more 0.25% increases in 2018. By the end of 2019, the federal funds rate is expected to reach 3%.

UCLA has noted that wages have increased at an anemic pace of roughly 2% annually since the Great Recession ended in 2009 and that with a tightening labor market, higher wages are expected. However, as the unemployment rate reaches a 17-year low, wage gains remain weak. Nevertheless, UCLA predicts wage growth reaching 4% in 2018.

The major risk to the forecast is the outcome of negotiations on the North American Free Trade Agreement (NAFTA). Shulman pointed out that gross trade between the U.S., Mexico, and Canada is more than $1 trillion annually. If the U.S. leaves NAFTA, the growth outlook will deteriorate, with the chance of a recession in late 2018 or 2019 increasing significantly.

The California Forecast

Jerry Nickelsburg, the head of the Anderson Forecast and the lead economist on California, noted that the state's growth has outpaced U.S. growth since the end of the recession, but that the outlook is for slower growth ahead.

Growth in high-wage fields, such as business, scientific and technical services, and the information sectors, have come to a halt. Nickelsburg pointed out that growth in the California economy depends on three elements: a growing workforce, a growing stock of physical capital, and increasing productivity. While there has been slow growth in physical capital and productivity, employment growth may be reaching its upper limit. Immigration has slowed and high home prices keep young families from moving into many regions of the state. The proposed federal tax changes could make matters worse, with the loss of deductions for mortgage interest and state and local taxes. These changes would effectively raise the price of already expensive California homes. Countering these effects on California housing are proposals to stimulate investments, which should boost economic activity statewide.

UCLA sees employment in California increasing 1.5% in 2018 and 1.1% in 2019, while real personal income increases of 3.1% in 2018 and 3.6% in 2019.

PROPOSED CHANGES TO THE CALPERS AMORTIZATION POLICY

As we have previously reported in our *Fiscal Report* articles, contributions to the California Public Employees' Retirement System (CalPERS) are critical to the solvency of the basic retirement plans, but the return on investments is key as it impacts the funded status of the plan and will drive the employer contribution rates of the future.

Overview

Currently, the overall Public Employees' Retirement Fund (PERF) for schools is only 67.8% funded to pay for pension benefits to members of the system. The plans are not 100% funded due to several contributing factors that have led to the current funding status, such as: fluctuations in investment, hiring, retirement, economic outcomes (e.g., inflation), and ultimately the funding policy set by the CalPERS Board (Board).

Proposed Changes

The Finance and Administration Committee (Committee) of the Board is tasked with continually reviewing the policies to ensure that goals are being met to sustain the PERF. In reviewing the current policy, the Committee analyzed a typical public agency plan by looking at its valuation and amortization schedule, and concluded that with the current policy, if a significant market downturn occurs, the funded ratio would drop and could continue to decline for several years following a loss. In addressing this dilemma, the Committee will be proposing changes to the amortization policy at the Board meeting next month.

The main change to the policy that the Committee will bring forth to the Board is to shorten the amortization period from 30 years to 20 years applied prospectively. With this approach, annual amortization amounts will be higher, which means faster amortization of losses, faster amortization of gains, and increased employer contribution volatility. However, with the higher cost up front, total payments over the amortization period will be reduced, which means less interest will be paid over amortization for losses and less interest earned over amortization period for gains. CalPERS also cites this as improved intergenerational equity as the unfunded liability will be paid off more quickly and the gains and losses will be addressed much sooner.

For CalPERS employers, if this policy is adopted, there will be greater volatility in employer contributions, and the near-term trend will be higher contributions overall.

Amortization Policy Survey

The Committee is encouraging stakeholders to take the Amortization Policy Survey and submit their feedback no later than January 24, 2018, so the results can be analyzed and presented to the Board on February 13 for consideration.

Meanwhile, we soon expect an official release of revised estimated employer contribution rates based upon the June 20, 2017, actuarial study for the Schools Pool under the current amortization policy. Stay tuned . . .

SPECIAL FISCAL REPORT: GOVERNOR'S PROPOSALS FOR THE 2018-19 STATE

BUDGET AND K-12 EDUCATION

Preface

What if life gave each of us a "mulligan" which in golf allows us to replay a shot to see if we can do better? How would we use that "mulligan" to our best advantage?

Well, Governor Jerry Brown got that "mulligan" and used it fully. The opportunity to be Governor at a young age, leaving office in 1974, then holding a variety of elected positions over nearly three decades, then becoming Governor again in 2010 gave Governor Brown the replay he wanted. Equipped with the experience and knowledge gained over a long political life, Governor Brown was clearly ready to put his mark on the state a second time as Governor. However, this was going to be the toughest course he had ever played!

The Challenge

Most of us remember what California looked like when Governor Brown was elected in the middle of the Great Recession: Unemployment rates of 14%, among the highest in the nation; cuts to school funding totaling an ongoing 22%; the worst credit rating of any state in the U.S.; companies moving out of California for greener pastures elsewhere; state revenues that consistently came in lower than projected and left the state so cash-poor that it could not even pay annual apportionments to schools without substantial deferrals; reductions in school staffing of more than 20%, in addition to layoffs, furlough days, increased class sizes, reductions in the school year, and a 20% cut to categorical programs.

And the dysfunction extended far beyond public education. The rancorous environment and partisan bickering in the Legislature led to State Budgets that were consistently months late and filled with gimmicks to try to survive another year. The state General Fund carried a negative reserve that was getting worse, not better. Federal judges were ordering the state to release prisoners to reduce overcrowding. The housing market had collapsed to the extent that the median price of homes was half what it had been four years before. Anyone longing for the bad old days?

The Path to Recovery

Crisis leadership is about defining the key controllable elements of a critical situation and massing resources at those points to bring about positive change. To accomplish that in a situation like Governor Brown inherited, he used his extensive experience in governance, built legislative support often by supermajority, and put his own personal charisma and reputation on the line.

Later on, when the national economic recovery started, the Governor's plan received a needed and expected boost, but for the first three years of his term we remained mired in the Great Recession and there was no external help to be had. California needed to create jobs, opportunities for employers, and a stronger more sustainable tax base, all while supporting the needs of former tax payers who had suddenly become tax receivers. Aided by temporary taxes, spending reductions and difficult policy choices, Governor Brown tackled the problems facing the state.

We are advocates for public education and do not like the fact that during the Great Recession the bulk of the State Budget cuts were taken by education. We felt the same about the classified, certificated, and management staff members in school districts shouldering the sacrifice of lower budgets and fewer jobs. But we also recognize that in order to save the ship you may have to offload the heaviest cargo, so sometimes the gold (in this case, our children's education) must be jettisoned. Moving the needle on California's recovery required bold, immediate actions; and Governor Brown took those actions. There was no guarantee that the Governor's plan would save our state, but the absence of action would guarantee defeat.

The Recovery

Aided by improving national and state economic conditions, California's recovery allowed the Governor to reshape major state institutions. No more property tax diversions to Redevelopment Agencies, a long-term solvency plan for the state's defunct pension plans, greater reliance on the top one-percent of taxpayers, and of course, restructuring of the entire educational delivery model.

Beginning in 2013, and continuing today, we have enjoyed revenues that are higher than those projected by the state in every year. Conservative budgeting has allowed the Administration to avoid the temptation to restore spending too quickly and risk falling back into the downward spiral. The constitutionally required "true-up mechanism" for Proposition 98 is intended to ensure that education will eventually receive at least the minimum guarantee. By paying significant amounts in arrears, each year the Administration created a safety net in case future revenues did not come in as planned.

For public education, reform has come in the form of the Local Control Funding Formula/Local Control and Accountability Plan (LCFF/LCAP). Now in its fifth year, an accumulation of longitudinal data from multiple measures and new testing processes are beginning to paint a pastiche of the effectiveness of the new system compared to the known deficiencies of the old Revenue Limit/Categorical model. While no new system is expected to be perfect or produce measurable results instantly, five years is, in our opinion, long enough to see evidence either confirming or denying that closure of the achievement gap is occurring. It will take longer to evaluate the full effect of all of the reforms, but after five years we believe there should be at least preliminary indications of success. With each year that passes the evaluation model should become a stronger indicator of progress—or lack thereof.

The Capstone

Apologizing for the lengthy history and foundation, we can now turn our attention to 2018-19 and the Governor's final State Budget. According to all of our most reliable sources, revenues for 2018-19 are again projected to be higher than the state has previously estimated. The Governor's proposals for 2018-19 include the Administration's revenue and expenditure estimates and planned program decisions based upon those estimates. We detail major program and budgetary effects later in this *Special Fiscal Report*.

Specifically, the Governor proposes significant actions in the following areas:

- **Proposition 98 Funding:** The proposed 2018-19 Governor's Budget includes Proposition 98 funding of $78.3 billion for 2018-19. The current-year Proposition 98 level increases by $700 million to $75.2 billion and when combined with more than $100 million in settle-up payments for prior years, the Budget proposes an increase of $4.6 billion in K-14 education over 2017-18.

- **Local Control Funding Formula:** The Governor's Budget proposes nearly $3 billion to fully fund the LCFF, including a 2.51% cost-of-living adjustment (COLA), two years ahead of the initial implementation timeline.
- **Discretionary Funds:** The Budget proposes $1.8 billion in one-time Proposition 98 General Fund money for school districts, charter schools, and county offices of education (COEs) to use at local discretion, which would be counted by the state as offsetting mandate reimbursement claims for these entities.
- **Career-Technical Education (CTE):** The Budget proposes an ongoing increase of $200 million to establish a K-12 specific component of the California Community College's Strong Workforce Program to encourage the establishment and support of K-12 CTE programs that are aligned with needed industry skills. The Administration also proposes an ongoing increase of $12 million to fund local industry experts who will provide technical support to LEAs operating, or proposing to operate, CTE programs.

All of these issues and more are detailed below and will be further expanded in our presentation of our Governor's Budget Workshop on January 16 and 17, 2018.

The Legacy

Stepping back to the big picture for a moment, it would be inappropriate and misleading to judge this Governor, or any leader, on short-term results. The body of work accumulated by Governor Brown over these past two terms have had a profound effect on the state's prospects for the future. Who had ever heard of the word "subsidiarity" before the Governor's Budget Proposals for 2009-10? Now we see that on the basis of that single word a new philosophy of distribution of governmental functions was born.

Cities, counties, prisons, jails, school districts and community colleges have all been affected by subsidiarity. Under the Governor's direction, governmental functions have purposefully been pushed downward to make local control much more local. Time will tell if subsidiarity really produces the expected results, but it was the genesis for major reform.

Clearly the centerpiece of the Governor's reform effort is public education. The Governor placed his confidence in Dr. Michael Kirst, in our opinion one of the most talented educators in the history of our country, as Chair of the State Board of Education (SBE). Given the opportunity to paint his life's work across the landscape of California, Dr. Kirst led the way. How many times have we held on to a failing system because we had nothing else to replace it? Dr. Kirst, backed by a very strong SBE, provided the leadership to cut loose the old and embrace the new.

As we mentioned earlier, the LCFF/LCAP model is still evolving. There are never any guarantees that a new system will realize its full potential. But failure to try guarantees failure. Measured against that standard, the LCFF/LCAP model provided a reasonable risk/reward ratio. But a distribution model can only do so much. At full implementation of the LCFF, California will retain among the lowest per-pupil funding rates in the nation. Distribution and equity can help, but quantity of dollars brings a quality all its own. It isn't only about dollars, but resources do count and even with the recovery, California still spends much less than other states—that too will be part of every Governor's legacy until it is corrected.

OVERVIEW OF THE GOVERNOR'S BUDGET PROPOSALS

On Wednesday, January 10, 2018, shortly after 10:00 a.m., Governor Jerry Brown unveiled his final proposed State Budget for the upcoming 2018-19 fiscal year. He completed his "prepared" remarks on his State Budget proposal in about five minutes and then turned to questions from the press.

The Governor led off with a statement that he was presenting a solid State Budget that prepares California for the future. Repeating the theme that has remained consistent throughout his second stint as Governor, Brown warned of the dire consequences of a recession, especially given the state's volatile tax system. He noted that there have been ten recessions since World War II and that we must prepare for the eleventh. As a result, he is again highlighting the need to build up the state's Rainy Day Fund and referenced last year's Department of Finance (DOF) analysis of the devastating impacts of even a normal recession—a loss of $20 billion in revenues a year for three years.

He also highlighted his crowning achievement in K-12 education, implementation of the LCFF and his proposal to reach full funding of the targets in 2018-19. He indicated that with regard to subsidiarity (which was a central theme for the LCFF), from his point of view, "The age of micromanagement from Washington and Sacramento is over."

During the Q&A period, the Governor was asked by former Sacramento Bee columnist Dan Walters about his proposal to aggressively fund the Rainy Day Fund. The Governor responded with, "I thought you retired," which got a big laugh. He then went on to say, "This is about steady as you go or exuberance followed by regret and pain," noting the effects of the dot-com bubble under the Davis Administration and the fiscal aftermath inherited by former Governor Arnold Schwarzenegger.

In addition to significant proposals in Proposition 98, some of the major initiatives of the Governor's State Budget include:

Full Funding of the Rainy Day Fund: Proposition 2, approved by California voters in 2014, established a constitutional goal of reserving 10% of tax revenues in a Rainy Day Fund. The Governor's Budget proposes a $3.5 billion supplemental payment in addition to the constitutionally required transfer to the Rainy Day Fund for 2018-19. The two payments would bring the total Rainy Day Fund to $13.5 billion, which hits the 10% goal.

Higher Education: The Budget proposes an LCFF-style funding formula for the California Community Colleges and the establishment of a wholly online community college in California. The online college would provide access to higher education for those who do not currently access the California community college system. Additionally, the Budget increases state support for the University of California and the California State University by $92.1 million, to avoid a tuition increase in 2018-19.

Health Care Expansion: Amidst growing uncertainly at the federal level, the Governor's Budget provides funding to increase health care coverage to low-income Californians under the federal Affordable Care Act (ACA).

Transportation Infrastructure: The Budget reflects the first full year of funding under the Road Repair and Accountability Act of 2017 (Senate Bill 1), which provides stable, long-term funding for both state and local transportation infrastructure. This act provides $55 billion in new funding over the next decade, split evenly between state and local projects. For 2018-19, the Budget includes $4.6 billion in new transportation funding.

In closing his press conference, the Governor responded to a question about the changes he has seen in California since first becoming Governor in 1974. He noted the influence of Proposition 13, which inserted Sacramento decision making into the affairs of local government. He also said that there was more bipartisanship in the Legislature four decades ago, noting that both Republicans and Democrats elected the leadership of their houses. With regard to the State Budget, the Governor pointed out that prisons now account for 9% of the Budget compared to 3% during his first term as Governor in the late 1970s. He did acknowledge, however, that a Governor has a greater impact now than 40 years ago.

The Economy and Revenues

Economic Outlook

While acknowledging the continued strength of both the state and national economies, and the subsequent increased revenues they produce, the Governor still has his eyes on ensuring California is prepared for the next inevitable downturn. In both his State Budget proposal and press conference, the Governor calls our attention to the fact that by the end of 2018-19 this recovery will match the longest recovery in post-war history. The previous periods of balanced State Budgets were all followed by large State Budget shortfalls, and the effects on California of the passage of the new federal tax bill, among other federal policies, are still largely unknown.

In light of these realities, Governor Brown proposes another State Budget based on the implementation of prudent fiscal practices that provide a balanced State Budget while continuing to plan and save for the future. While the economy continues to expand, even a moderate recession could significantly impact state revenues for several years to come. To ensure the state is ready for a potential slow down, the Governor's State Budget proposes fully funding the Rainy Day Fund and allocating the majority of the revenue surplus to one-time expenses. The State Budget is clear that fully funding the Rainy Day Fund may not eliminate the need for spending reductions should a recession or federal policy changes come to pass, but it should allow for the softening of potential cuts and/or shortening of the length of time any potential cuts would be effective.

At the national level, the stock market has reached an all-time high with no signs of slowing down. All three major indices reached new levels the first week in January, with the Dow Jones surpassing 25,000 for the first time. In spite of the Federal Reserve's continued interest rate hikes, housing prices continue to rise and mortgage rates remain historically low. Wages are increasing and the unemployment rate for both the nation and California dropped to 4.6% and 4.1%, respectively, further narrowing the gap between the two. In addition, the country added 228,000 jobs in November 2017 and, as previously noted, the Governor's State Budget anticipates modest growth for the California economy.

State Revenues

The Governor's State Budget presents a rosy picture, with revenues higher than projections. Total state revenues are higher year over year, and the economy continues to grow, though modestly. The higher revenues, as expected, are due largely to an increase in personal income tax collections with sales and use tax also seeing an increase over those estimated by the DOF in the adopted 2017-18 Budget Act.

The Legislative Analyst's Office (LAO) forecast released in November 2017 also estimated a significant increase in General Fund revenues. The LAO continued to provide two long-term estimates—one based on an economic growth scenario and another based on a mild recession scenario. Under the economic growth scenario, the State Budget will retain a surplus, with increases in revenues from the personal income tax driving the majority of the growth, while the recession scenario reflects a roughly $80 billion revenue loss, compared to the growth scenario, over the three fiscal years between 2019-20 and 2021-22.

Proposition 98

Adopted by state voters in 1988, Proposition 98 sets in the State Constitution a series of complex formulas that establish the minimum funding level for K-12 education and community colleges from one year to the next. This target level is determined by prior-year appropriations that count toward the guarantee and (1) workload changes as measured by the change in average daily attendance (ADA), and (2) inflation adjustments as measured by the change in either per capita personal income or per capita state General Fund revenues, whichever is less. Over the last several years, Proposition 98 has provided significant gains to schools as funding cuts endured through the Great Recession have been restored.

Current-Year Minimum Guarantee

For the current year, the Governor's State Budget acknowledges that revenues are higher than projected in the adopted 2017-18 Budget Act, resulting in the increase of the current-year minimum guarantee. For the current year, the Proposition 98 guarantee is now estimated at $75.2 billion, up approximately $700 million from the enacted level.

Proposition 98 also requires the state to account for state funding that falls below the long-term target established by Test 2 (i.e., adjustments required by annual changes in per capita personal income). This cumulative shortfall is termed Maintenance Factor. The Governor's State Budget notes that as of the end of 2017-18, the Maintenance Factor will be down to $228 million, as the Budget proposes a payment of $1.12 billion in the current year.

2017-18 Minimum Guarantee

For 2018-19, the Governor's State Budget proposes a Proposition 98 guarantee of $78.3 billion, an increase of $3.1 billion year over year. The guarantee is based on Test 3, the change in per-capita General Fund revenues, plus 0.5%, and the change in K-12 ADA, which is expected to decline in the budget year. The Governor's State Budget notes that an additional $92 million in Maintenance Factor will be created—due to it being a Test 3 year—totaling just over $320 million at the end of 2018-19.

Cost-of-Living Adjustment and Average Daily Attendance

The estimated statutory COLA for K-12 education programs in 2018-19 is 2.51%, and is applied to the LCFF base grant targets, as well as other education programs that are funded outside of the LCFF. Those programs include Special Education, Child Nutrition, Foster Youth, Preschool, American Indian Education Centers, and the American Indian Early Childhood Education program, all of which are proposed to receive the statutory COLA.

Statewide, ADA is expected to decrease in 2018-19 by 17,163 ADA from 2017-18 levels to an estimated ADA of 5,944,090.

Local Control Funding Formula

The Governor's 2018-19 Budget proposal fully implements the LCFF two years earlier than originally projected with an infusion of nearly $3 billion. The LCFF provides funding to transition all LEAs toward target funding levels, and provides supplemental revenues through percentage weighting factors to increase or improve services for students who are not English language proficient, who are from low-income families, or who are in foster care.

LCFF Target Entitlements for School Districts and Charter Schools

The target base grants by grade span for 2018-19 are increased over 2017-18 by 2.51% to reflect the estimated statutory COLA:

Grade Span	2017-18 Target Base Grant Per ADA	2.51% COLA	2018-19 Target Base Grant Per ADA
TK-3	$7,193	$180	$7,374
4-6	$7,301	$183	$7,484
7-8	$7,518	$189	$7,707
9-12	$8,712	$219	$8,931

In addition, the 2018-19 Transitional Kindergarten (TK)-3 grant increase for the class-size reduction (CSR) grade span adjustment is $767 per ADA, and the grade 9-12 base grant per ADA is increased by $232 in recognition of the need for CTE courses provided to students in the secondary grades.

School districts and charter schools are entitled to supplemental increases equal to 20% of the adjusted base grant (includes CSR and CTE funding) for the percentage of enrolled students who are English learners, eligible for the free and reduced-price meals program, or in foster care. An additional 50% per-pupil increase is provided as a concentration grant for each eligible student enrolled beyond 55% of total enrollment.

LCFF Transition Entitlements and Gap Funding

The difference between an LEA's current funding and its target entitlement is called the LCFF gap, and it is this gap that is funded with the additional dollars dedicated each year to implementation of the LCFF. For 2018-19, the Governor's Budget proposes to spend almost $3 billion to move from 97% implemented to fully close the LCFF funding gap—two years ahead of the intended 2020-21 implementation date.

The table below shows the DOF's LCFF gap percentages through 2018-19:

District and Charter School LCFF Funding and Gap Closure Estimates (Dollars in Millions)					
	2014-15	2015-16	2016-17	2017-18	2018-19
LCFF Funding	$4,722	$5,994	$2,942	$1,362	$2,883
Gap Closure %	30.16%	52.56%	56.08%	44.97%	100.00%
COLA	0.85%	1.02%	0.00%	1.56%	2.51%

Pupil transportation and Targeted Instructional Improvement Grants continue as separate add-ons to the LCFF allocations and do not receive a COLA.

Fiscal Transparency

Citing expressed concerns about the direct services being provided to the students that generate LCFF dollars, the Governor's Budget proposes requiring LEAs to show how their budget expenditures align with the strategies detailed in their LCAPs for serving students that generate supplemental grants. Additionally, the Governor proposes calculating and reporting on a single website the total amount of supplemental and concentration funding provided to each LEA under the LCFF.

County Offices of Education

COEs receive funding under a similar formula, with funding provided in recognition of direct instructional services for pupils in juvenile court schools and community schools and an allocation for countywide services based on the number of school districts and total ADA within the county. As of 2014-15, the LCFF for COEs is fully implemented and, therefore, LCFF increases for COEs in 2018-19 are provided through the estimated COLA only, with COEs that are at their LCFF target receiving a 2.51% increase. COEs that are more than 2.51% above their LCFF target will receive no additional funding through the formula in the budget year.

COE funding for 2018-19 is increased under the Governor's Budget proposal by a net of $6.2 million to account for a COLA on LCFF entitlements and changes in ADA.

Community-Funded School Districts

School districts with property tax revenues that exceed the formula funding levels will continue to retain their local tax growth, and will receive a minimum state aid allocation that is reduced by the cuts incurred during the recession which, under the LCFF, are carried forward into future years for these districts.

System of Support

Full funding of the LCFF is coupled with additional investments in the final phase of implementation of the LCFF, namely the accountability provisions. With the development and official launch of the California School Dashboard, the focus is now on making sure that LEAs are using their dollars to demonstrate improvements in student performance.

The state's new accountability system includes a statewide system of support tasked with providing varying levels of assistance for LEAs. The Dashboard has been used to identify school districts—for the first time under LCFF—that require differentiated assistance because one or more of their student groups have low performance across multiple state priorities.

The Governor's proposed Budget invests $55.2 million in ongoing funding for COEs to work with districts identified for differentiated assistance. COEs are required to work with identified school districts to determine the causes of poor student performance and to connect school districts with resources as needed. Recognizing that certain COEs are better poised to work with their districts as required under the system of support, the 2018-19 State Budget includes $4 million ongoing for a competitive grant for eight COEs to serve as leads to provide training, resources, and support for other COEs to do the work to support their districts.

Finally, the Budget has invested an additional $6.5 million of ongoing funding for the California Collaborative for Education Excellence to work with COEs to provide assistance to school districts as part of the state system of support.

Special Education

The Governor proposes modest one-time and ongoing funding for special education programs. In addition to applying a 2.51% COLA increase, the Governor proposes $100 million in one-time funding for programs to increase and retain special education teachers (see Teacher Workforce Development section below).

The 2018-19 State Budget proposal also contains $10 million in ongoing funding for SELPAs to work with COEs to provide technical assistance to LEAs to improve student outcomes as part of the statewide system of support.

The Governor proposes $167 million, of which $125 million is ongoing, to establish an "Inclusive Education Expansion Program" aimed at increasing availability of programs for children ages 0 to 5, aimed at improving school readiness and long-term academic outcomes for low-income children and children with exceptional needs.

The State Budget also contains proposals that revise special education budget transparency and accountability by requiring SELPAs to complete a SELPA local plan template that aligns the services and resources noted in the local plan with the goals identified in their member district's LCAP and to summarize how a SELPA's planned expenditures and services align with the improved student outcome strategies noted in the SELPA's plan.

Teacher Workforce Development

The Governor's Budget proposes $100 million in one-time funding for Teacher Workforce Development targeted to special education educators. The Administration notes that two-thirds of school districts have been identified as having poor special education performance.

Specifically, the Administration proposes:

- $50 million one-time funding to support locally sponsored, one-year intensive, mentored, clinical teacher preparation programs aimed at preparing and retaining special education teachers
- $50 million one-time funding to provide competitive grants to local educational agencies to develop and implement new, or expand existing, locally identified solutions that address a local need

This infusion is focused on special education and comes on the heels of successive years of funding to address the teacher shortage in California in the areas of professional development, classified employee credentialing grants, and four-year credentialing programs.

Career-Technical Education

The Governor's 2018-19 State Budget proposal includes $200 million in ongoing funding to establish a K-12 speci?c component of the community college-administered Strong Workforce Program. The Governor notes the new funding is aimed at encouraging "the establishment and support of K-12 CTE programs that are aligned with needed industry skills." The Governor proposes an ongoing increase of $12 million to fund local industry experts who will provide technical support to LEAs operating, or proposing to operate, CTE programs. The Governor notes, "This proposal creates a predictable, targeted, and sustained funding stream to support an industry and student-focused infrastructure for workforce development collaboration at the state, regional, and local levels."

Discretionary Funds

The Governor's Budget proposes $1.8 billion in one-time Proposition 98 funds for school districts, charter schools, and COEs to use at the discretion of local governing boards. This equates to approximately $295 per ADA. These funds, like prior years, would be counted by the state as offsetting prior-year mandate reimbursement claims on a dollar-for-dollar basis. The 2018-19 State Budget Summary notes that this infusion, coupled with past years' payments, reduces the amount owed to LEAs for mandates from a recent high of $6 billion to less than $1 billion.

Child Care and Preschool

Maintaining a three-year agreement with the Legislature to increase investments in child care and preschool, the Governor's Budget proposes to increase reimbursement rates and fund the final tranche of state preschool slots. Specifically, the 2018-19 State Budget proposes to:

- Increase the Standard Reimbursement Rate by 2.8%, for a total General Fund and Proposition 98 investment of $47.7 million—$16.1 million and $31.6 million, respectively
- Provide an ongoing $34.2 million to convert the temporary Regional Market Rate (RMR) "hold harmless" provision to a permanent provision, beginning in 2019-20
- Fund an additional 2,959 full-day State Preschool slots, beginning in April 2018
- Fulfill the fiscal year 2017-18 increase to the RMR to the 75th percentile of the 2016 regional market rate survey, beginning January 1, 2018
- Make a modest adjustment to California Work Opportunity and Responsibility to Kids Stage 2 and Stage 3 to reflect caseload and estimated costs of care
- Provide $125 million in one-time Proposition 98 funding and $42.2 million in federal Temporary Assistance for Needy Families funds to create the Inclusive Early Education Expansion Program to increase the availability of early education and care for children ages 0 to 5, targeting children in low-income areas

The Governor also acknowledges the operation of state-approved pilot programs in 13 counties that authorizes providers in those counties to earn their full contracts through greater program flexibility. His proposal commits to working with providers in those counties to help streamline requirements.

School Facilities

In light of last summer's action by the SAB to approve a Grant Agreement required by all applicants of the School Facility Program, alongside impending changes to facility project expenditure audits as part of the K-12 annual audit, the 2018-19 State Budget proposes to authorize a total of $640 million in Proposition 51 bond authority.

Additionally, the Budget proposes an ongoing appropriation of $28.3 million to the Charter School Facility Grant Program (CSFGP), which assists charters with the payment of rent and lease obligations, to reflect anticipated program participation.

The 2018-19 Governor's State Budget includes no additional investments in the Clean Energy Jobs Creation Fund (Proposition 39) as fiscal year 2017-18 was the final year of the five-year program approved by the voters in 2012.

Federal Programs

At the federal level, there remains continued uncertainty regarding federal appropriations for public education programs. In December 2017, Congress passed a Continuing Resolution (CR) that funds all discretionary funding at current levels until January 19, 2018. There are rumors that the CR will be extended through mid-February to allow Congress to work out deals on immigration and health care issues.

In his 2018-19 State Budget proposal, Governor Brown notes that, "California's relationship with the federal government has never been more uncertain." The Budget proposal does not factor in the ramifications of the recently enacted federal tax bill, nor any additional proposed federal cost shifts resulting from the repeal of the ACA or other federal entitlements. The Governor indicates the May Revision will include a preliminary analysis of the proposed impact of the tax cuts and any enacted cost shifts on the state's economy and revenues.

In Closing

In closing, remember that the Governor's Budget proposals mark the beginning of the process, not the end. We expect the Legislature to push back on the Governor's priorities and especially his revenue estimates. As the various proposals are considered by legislative committees, we can expect both confrontation and compromise; in our opinion, the Governor continues to win on the issues most important to him.

There was a time, not so long ago (certainly during Governor Brown's political lifetime), when California was the envy of the world. We had the best public education system in the world. The best jobs, the best homes, the best weather, the best beaches, and we even had Disneyland! Employers came here for our educated work force and created high-paying jobs in aerospace, medicine, manufacturing, agriculture and construction. We were leaders in all those areas.

Then came Proposition 13 and the erosion of our infrastructure began. Our education system suffered immediate damage and we dropped from the top 5 to the bottom 10 states by any measure. The roads lasted, but not forever. The jobs first stopped coming to California, then started leaving. High-paying technical and professional jobs left and were replaced by lower-paying service industry jobs. More of California's governmental and education expenditures were funded by volatile sales and income taxes as opposed to the more stable property tax. By the 1980s, for the first time in our history, the population of tax receivers was growing faster than the economy itself.

We, and all of our readers, care about public education because we know it is the great equalizer.

Not just economics, or safety, or social justice, or human dignity—but all of them are dependent upon an education system that builds our country one student at a time. No one Governor or one State Budget can be expected to address all of our needs, but every State Budget should be expected to make progress on the ones we hold most dear. We think this State Budget continues to advance those choices and priorities.

We also think Governor Brown is going out on top. He didn't address every issue, perhaps not even to his own satisfaction, but he was our Winston Churchill and he "never gave up" on California, even in our "darkest hour." Perhaps that is his greatest legacy.

Commentary on Governor's Budget from School Services of California -

THEMES FOR THE 2018 GOVERNOR'S BUDGET

All of us at School Services of California, Inc. (SSC) are honored to provide the facts, the impacts and our opinions about the Governor's Budget proposals each year. This year, the big news is that Governor Jerry Brown has, before leaving office next year, chosen to place the keystone in his ambitious plan for reform of public education. Funding full implementation of the Local Control Funding Formula (LCFF) carries with it three major impacts. First, local educational agencies will receive more in 2018-19 than previously anticipated. Second, at full implementation, the rules change a bit in terms of proportionality of total expenditures versus the incremental allocation of new revenues. And finally, beginning in 2019-20 and for all subsequent years, the LCFF formula is expected to provide only a cost-of-living adjustment (COLA) to each district; all districts would get the same COLA percentage, though it would be applied to each district's unique funding level.

More importantly, full implementation signifies that the Governor has completed the work he set out to do in 2012-13 when the economic recovery started to gain momentum. Like any artist, we think the Governor preferred to put the finishing touches on his masterpiece himself, rather than hope his successor had the same vision.

Without the economic recovery, we think the opportunities for change would have been very slow in coming. But the combination of economics, politics, temporary taxes, and occasional supermajorities in both the Assembly and Senate fueled the Governor's appetite for change.

Answering the Bell

Most of us remember what California looked like when Governor Brown was elected in the middle of the Great Recession. Unemployment rates of 14%, among the highest in the nation; cuts to school funding totaling an ongoing 22%; the worst credit rating of any state in the U.S.; companies moving out of California for greener pastures elsewhere; state revenues that consistently came in lower than projected and left the state so cash-poor that it could not even pay annual apportionments to schools without substantial deferrals; reductions in school staffing of more than 20%, in addition to layoffs, furlough days, increased class sizes, reductions in the school year, and a 20% cut to categorical programs. Anyone remembering the bad old days? We think the Governor truly stepped out of his corner and answered the bell with both fists flying.

The Path to Recovery

Governor Brown is a professional Governor; after what has become four terms in office, he knows how the system works, the people in it, and how to read the willingness of voters to support. He used his extensive experience in governance, built legislative support often by supermajority, and put his own personal charisma and reputation on the line.

We are advocates for public education and do not like the fact that during the Great Recession the bulk of the State Budget cuts were taken by education. We felt the same about classified, certificated, and management staff members in school districts shouldering the sacrifice of lower budgets, fewer jobs, more work, and lower compensation. And many of us wondered if education funding would ever be restored even if the economy recovered. Coming out of most past recessions, the Administration and Legislature made significant policy and funding decisions that often left public education behind. I think many of us were concerned that could happen again. However, in this case, the Governor made a commitment to restore purchasing power, and looking at only the revenue side, we think he would say he met that commitment.

The Things That Are Not Complete

Beyond the simple restoration of revenues remain a series of actions and initiatives for which the mantle has not yet been seized.

Per-Student Spending Continues to Lag: We need an even playing field when it comes to per-student spending. The LCFF is an allocation model, it does not increase the state's level of effort and California remains far behind other states. Even at full restoration, California remains near the bottom of state rankings in per-student spending. We estimate that while the average district will continue to rank about 45th in per-student spending, the districts with the lowest number of unduplicated students will remain last in the nation while our highest funded districts with the neediest students will remain at about 35th, well below the national average as well.

That results in continuation of very difficult conditions in our classrooms. The highest class sizes in the nation and fewer administrators, librarians, nurses, counselors, and classified support personnel of all types put great pressure on our professional teachers. The absence of support systems enjoyed by teachers in other states is a glaring, and in our opinion, shameful example of the erosion of the priority of public education in California.

The next Governor will need a plan to return our commitment to public education to the level we enjoyed prior to the passage of Proposition 13. We can't be last in education and hope to be much higher than that in economic growth, social reform, and human dignity.

Whether the new benchmark targets the national average, the highest spending states or some other higher bar, we need to make that commitment now.

We Need a Recession-Proof Funding Model: The highest spending states not only spend more, but they develop sources of funding that do not result in schools taking the first hit in every recession. During the Great Recession, education in California was simply cut way too deep. Over that seven-year period, we lost 20% of our teachers and other staff, and most of them will not be back. We lost the opportunity to provide a full and rich educational program to our most needy students; we will not get that opportunity back. We allowed the achievement gap to grow at the very time when we most needed to close it.

Other states don't do that; the source of funding for education, be it property taxes or other sources, stay with education and do not become a safety net for the rest of state government. We have to do better.

We Need Continuity of Purpose: It is not just about money. Whether we like the Common Core State Standards, the current Smarter Balanced testing model, the LCFF, the LCAP, or federal programs matters less than that we get better at using the programs available to us to produce results now. Even with the significant efforts that are now being made in early childhood education, public education has only a limited number of years to prepare students for success in life. Successful organizations stay the course even as they continue to strive for continuous process improvement. We have not done that in public education.

Right now, for example, the Feds and other groups are criticizing California's accountability model long before the model has had a chance to be successful. If we bow to external pressure and give up our own values too soon, it will lead to the discontinuity we have experienced for more than three decades.

We Need Stronger Support Systems for Children and Families: Public education simply cannot do it all. When our family support systems and other social structures including health and welfare fail families, we just can't make up for that loss in our schools, though we try. Successful families support successful children who are healthy and attend school regularly. They also support a commitment to homework, parental involvement, and other activities that clearly communicate to children that education is important.

Government can't do it all, nor can parents, nor can schools. It is all of us building for the future together that offers our children a chance for a brighter future.

Moving Forward

Sometimes when we write this commentary on the Budget and public education it is easy to seemingly drift away from problems and think about dreams for the future. But we don't mean to sound like that at all. None of the concepts we think need to be addressed in California are beyond the successes currently being enjoyed in our own country and other countries. We can do better right now.

We think the word "innovation" is way overused. When we are the best in the world at what we do, we have the capacity to reach higher and innovate. But until we reach that level, we should imitate, not innovate. Find organizations that are successful and copy what they do.

And what are the successful states, those in the top five in student achievement, doing? They are lowering class sizes, providing additional support to teachers, using technology to leverage learning, bringing parents into classrooms and keeping bureaucracy out. And all of that costs money, but it also requires a long-term commitment to a set of locally appropriate principles.

So, while we commend the Governor for his efforts to right the ship, we also see that the real work and commitment is ahead of us, not behind. All of us at SSC are here to support public education in bringing about positive change for our students and our state.

UNITED STATES COMMISSION ON CIVIL RIGHTS CONCERNED ABOUT INEQUITIES IN SCHOOL FUNDING

In the January 2018 briefing report to President Donald Trump, the United States Commission on Civil Rights (Commission) finds inequities in school funding across the nation. The report, *Public Education Funding Inequity in an Era of Increasing Concentration of Poverty and Resegregation*, reviewed K-12 funding across the nation and how the inequities impede educational opportunities for low-income students and students of color. In the cover letter, it states that a "majority of the Commission" voted for key findings. Members of the Commission added comments and dissenting opinions at the conclusion of the report.

The report uses data going back to the first desegregation law, *Brown vs. Board of Education* in 1954, and reviews key court and political movements that have changed over time to contribute to the inequities. It shows that in 2013-14, federal funding was only 9% of total funding for K-12 schools in the U.S. The variances in funding range from Utah at $6,546 per student to the District of Columbia at $20,577 per student; the national average was $11,066, and California was at $9,671 (13% below the average and 53% below the highest).

Examining expenditure trends and comparing teacher salaries and quality, as well as facilities and federal spending, the report is a thorough examination of school funding. The report also discusses funding formulas that vary from state-to-state and district-to-district.

Key findings in the report include:

- Vast funding inequities in our state public education systems exist
- 40% of Title I schools spend less on personnel per pupil than non-Title I schools at the same grade level and within the same district
- School finance inequities cause harm to students
- Low-income students and students of color are often relegated to low-quality school facilities that lack equitable access to teachers, materials, technology, and facilities
- Many U.S. students are living in segregated neighborhoods without access to high-quality schools
- The reality of American schools is fundamentally inconsistent with the American ideal of public education operating as a means to equalize life opportunity

Recommendations include:

- Incentivize states to adopt equitable public school finance systems that provide meaningful educational opportunity, promote student achievement, and close achievement gaps
- Incentivize states to ensure adequate funding for students with disabilities without incentivizing classification of students into special education
- Incentivize states to invest in facilities that provide an equitable environment for students to achieve
- Increase federal funding to supplement state funding to provide meaningful educational opportunities for all students
- Promote the collection, monitoring, and evaluation of school spending data to determine how funds are most effectively spent to promote positive student outcomes

- Develop mechanisms to monitor and evaluate the effectiveness of federal spending on student achievement and closing achievement gaps

DISTRICT:

From Speak UP Board Watch, January 5, 2018 -

LAUSD SUPERINTENDENT MICHELLE KING ANNOUNCES RETIREMENT

After months of medical leave while battling cancer, LAUSD Superintendent Michelle King announced her retirement on Friday.

"I have had the honor of serving as the superintendent of L.A. Unified for two years, although I have been challenged by medical issues for the last several months," King said in a statement. "During this time, I have been undergoing treatment for cancer. Now, with the progression of my illness, I have made the incredibly difficult decision to retire by June 30. Until then, I will remain on medical leave."

Speak UP Executive Director Katie Braude thanked King for her years of dedication to LAUSD students and for her historic term as the first African-American woman at the helm of the district. "We are grateful for King's years of service on behalf of kids and, along with parents throughout LAUSD, we send our heartfelt wishes for a quick recovery," she said.

King said in her statement that she appreciated "the outpouring of support" and "as I aggressively fight this illness, I ask that you continue to keep me in your thoughts and prayers."

Acting Superintendent Vivian Ekchian, who has been serving in King's place, will remain in charge of the district for now, although the LAUSD Board is expected to launch a wider search for King's replacement in coming months. (Ms. Ekchian has been officially named "Interim Superintendent".)

"My thoughts and prayers are with Michelle and her family at this time, as they have been for the last few months, as she so courageously fights a cancer diagnosis," said Board Vice President Nick Melvoin (BD4). " I am continually inspired by her lifelong dedication to this District, not only as Superintendent, but also as a student, parent, teacher, principal, and administrator. It was another Dr. King who reminded us that "life's most persistent and urgent question is: what are you doing for others?" Dr. Michelle King, the first African-American woman to hold the position of Superintendent in L.A. Unified, has over 33 years of an answer. Her dedication to L.A Unified has left an indelible mark on the employees, teachers, students, and families that she has tirelessly served and we will work every day to honor that service."

Members of the Board of Education also issued a joint statement expressing gratitude to King and describing her as "an exemplary educator, inspirational role model and steadfast leader."

"Having dedicated her career to the District, it is now time for Dr. King to focus her incredible strength and energy on her health," said the Board statement. "We wholeheartedly support her decision to retire, and will continue to keep her in our thoughts and prayers as she faces the challenges ahead."

MEETINGS WITH BD 6 BOARD MEMBER KELLY GONEZ

Monthly, a group of charter leaders with schools in Board District 6 (BD6) have the pleasure of meeting with our board member, Kelly Gonez. She shares priorities for her work in the northeast and east San Fernando Valley, while we have the opportunity to share any concerns, ask questions, or share information that we believe to be relevant to her work. We appreciate the reputation CCSA has built to get us to this positive juncture of ongoing and direct communication with our board member. If we have questions, we present them directly and are able to share our concerns firsthand and immediately. It is a very welcome change!

YPICS:

YPICS Leadership, all administrators, directors, and coordinators from each school met for a Leadership Quarterly Retreat on Thursday, January 4, 2018. Leaders had an opportunity to reflect on their 2017-2018 School Success Plans, celebrated successes, reviewed areas for growth, and shared success strategies that yielded increase; as evidenced by the school-wide data reviews.

Bert Corona Charter High School held their much-needed school retreat on January 8, 2018. The high school also had their oversight review on January 10, 2018, which went well. The LAUSD team reported that there are high levels of common-core strategies utilized consistently throughout the school. One LAUSD Specialist stated, "The atmosphere in this classroom feels more like a college setting than a high school classroom."

One last shout out from the high school is the first two seniors brought their letters of acceptance to school on January 10th, and we celebrated their accomplishment during the oversight visit!

The YPICS middle school teachers, instructional aids, office and support staff, participated in a YPICS-wide Professional Development day which focused on learning strategies for ELs, LTELs, a data review, suicide prevention, and operations topics.

All YPICS Special Education Teachers and Assistants attended the COP Step-Back training on the same day.

Looking Ahead:
YPICS is working on mid-year teacher and staff evaluations. Administrative evaluations will take place during February. Additionally, YPICS is scheduled for a CDE Meal Audit on Monday, January 29, 2018.