



January 30, 2017

TO: Business Administrators
Los Angeles County School Districts
Regional Occupational Centers/Programs (ROC/Ps), and
Joint Powers Authorities (JPAs)

FROM: Scott Price, Ph.D., Chief Financial Officer
Business Services

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Division of Business Advisory Services

SUBJECT: 2017-18 Governor’s Proposed Budget Updates

GOVERNOR’S PROPOSED 2017-18 BUDGET

On January 10, 2017, Governor Brown introduced his Proposed 2017-18 State Budget (Budget). This Budget proposal includes Proposition 98 funding of \$73.5 billion for 2017-18, a decrease of \$953 million relative to the funding level from the 2016-17 Enacted Budget. The Budget increases funding for the Local Control Funding Formula (LCFF) by \$744 million, with an additional \$2.3 billion going into the State’s Rainy Day Fund.

We continue to remind Districts there is no statutory requirement for an increase in LCFF funding in future years. Any increase depends upon the appropriation, by the Legislature and approval by the Governor, of State funds to provide an increase in LCFF funding. ***Therefore, we continue to recommend that districts assign, reserve, or otherwise set aside any increase in LCFF revenues in 2017-18 and beyond. If districts budget this increased revenue and associated expenditures they must have a contingency or alternative plan in place should these funds fail to materialize.***

Local Control Funding Formula (LCFF)

<u>Grade Level</u>	<u>2016-17 Base Grant</u>	<u>2017-18 COLA 1.48 Percent</u>	<u>2017-18 Base Grant per ADA</u>
K-3	\$7,083	\$105	\$7,188
4-6	\$7,189	\$106	\$7,295
7-8	\$7,403	\$110	\$7,513
9-12	\$8,578	\$127	\$8,705

COLAs and Gap Funding Amounts

Statutory COLA increases the Base Grant rates annually. The estimated COLA for 2017-18 is 1.48 percent, 2.40 percent for 2018-19 and 2.53 percent for 2019-20. The *COLA affects only the calculation of the LCFF Target, and does not describe the net increase in funding for each district.*

California Career Technical Education Incentive Grant

The Proposed Budget continues to provide the third and final year of “bridge funding,” of \$200 million for 2017-18 for the transitional California Career Technical Education Incentive Grant (CTEIG) Program. The local match ratio requirement is 2:1 in 2017-18. The expectation is that LEAs will use LCFF and the 9-12 grade span adjustment (GSA) funds to support the program beginning 2018-19.

LCFF Revenue Projections

The County Office recently updated LCFF revenue calculations incorporating these assumptions (Attachment No. 1). We *strongly recommend that districts update their attendance numbers and utilize these County Office LCFF revenue calculations to project their updated revenues and multi-year projections.*

CASH FLOW PROJECTIONS

The Proposed Budget included a one-time deferral or “LCFF cost shift,” which will result in the shifting of \$859.1 million in LCFF expenditures from June 2017 to July 2017. The result will be no Principal Apportionment payments received in June 2017, and two payments received in July 2017. Districts are encouraged to review their June 2017 cash flow to ensure adequate funds are available to meet its obligations or have the ability to delay certain payments.

ONE-TIME FUNDS

One-Time Discretionary Funds (Mandated Cost Reimbursement)

The Proposed Budget included \$287 million in one-time funds continuing to pay down a portion of the debt owed to LEAs for mandated cost reimbursement. The funds may be used for any purpose as determined by the district's Governing Board. Distribution of the mandate reimbursement is on a per ADA basis, estimated at \$48 per ADA.

Mandated Block Grant (MBG)

The 2017-18 Proposed Budget provides \$228 million for the MBG, an increase of \$8.5 million. See the table below for the recommended per ADA rates.

Grade Span	School District Rates	Charter School Rates
K-8	\$28	\$14
9-12	\$56	\$42

Proposition 39: California Clean Energy Jobs Act

The Proposed Budget provides \$422.9 million, an increase of \$24.4 million from 2016-17, bringing the five year total to \$1.795 billion, with only \$977.3 million (54.5 percent) in approved plans to date. The last day to submit Energy Expenditure Plans is August 1, 2017. This is to ensure funds are encumbered by the statutory deadline of June 30, 2018, and that projects are completed by June 30, 2020.

Retirement - CalSTRS Rates

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Employer	10.73%	12.58%	14.43%	16.28%	18.13%	19.10%

At its February 1, 2017, meeting, the California State Teachers' Retirement System (CalSTRS) Board will entertain a recommendation from its actuarial firm to lower its assumed rate of investment return from 7.5 percent to 7.25 percent. In a move similar to the rate reduction recently made by the California Public Employees' Retirement Systems (CalPERS) Board.

Retirement - CalPERS Rates

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Employer	11.847%	13.888	15.80%	18.70%	21.60%	24.90%

CalPERS recently reduced its investment return assumption from 7.5 percent to 7.0 percent. CalPERS also estimates that for every 0.25 percent reduction in its assumed rate of return, an additional 1.0 percent increase (based on the 2016-17 Enacted Budget), in employer contribution rate would be required to maintain the funded level of the schools pool.

Based on the estimated increase in CalSTRS and CalPERS contributions, we strongly recommend LEAs plan accordingly for the increased expenses, especially in the out years.

CATEGORICAL PROGRAMS

Lottery

LEAs should use \$144 per ADA unrestricted and \$45 per ADA restricted, for instructional material purchase, for 2016-17, 2017-18, 2018-19 and 2019-20.

COUNTY OFFICE ASSISTANCE

The staff member in the Division of Business Advisory Services assigned to your district (Attachment No. 2) is available to assist you with questions you may have regarding these assumptions.

This bulletin and its attachments are posted on the County Office website at this address:

<http://www.lacoe.edu/Bulletins.aspx>

Use the "Search" function to locate a specific bulletin by number or keyword.

If you have questions regarding this bulletin or the Interim Report process, please contact Keith D. Crafton at (562) 922-6131, Charles W. Faulkner at (562) 922-6132, or your business services consultant.

SP/JY:lc
Attachments

**UPDATED BUDGET ASSUMPTION GUIDELINES (AS OF JANUARY 2017)
PROJECTIONS FOR FISCAL YEARS 2017-18 THROUGH 2020-21**

The guidelines below are provided to assist you with projections for fiscal years 2017-18, 2018-19, 2019-20 and 2020-21.

LCFF REVENUE	2017-18	2018-19	2019-20	2020-21
Statutory COLA / Net Funded COLA	1.48%	2.40%	2.53%	2.66%
Gap Funding ¹	23.67%	53.85%	68.94%	100.00%
SPECIAL EDUCATION AND CATEGORICAL PROGRAMS	2017-18	2018-19	2019-20	2020-21
COLA for Special Ed and Other Categorical Programs Outside of LCFF (on state and local share only)	1.48%	2.40%	2.53%	2.66%
LOTTERY REVENUE	2017-18	2018-19	2019-20	2020-21
Unrestricted	\$144.00/ADA	\$144.00/ADA	\$144.00/ADA	\$144.00/ADA
Restricted for Instructional Materials	<u>45.00/ADA</u>	<u>45.00/ADA</u>	<u>45.00/ADA</u>	<u>45.00/ADA</u>
Total Lottery Revenue	\$189.00/ADA	\$189.00/ADA	\$189.00/ADA	\$189.00/ADA
OTHER FACTORS	2017-18	2018-19	2019-20	2020-21
CalSTRS Employer Rates	14.43%	16.28%	18.13%	19.10%
CalPERS Employer Rates	15.80%	18.70%	21.60%	24.90%
Interest Rate for 10-year Treasuries	2.50%	2.70%	2.90%	2.80%
California Consumer Price Index (CPI)	2.72%	2.92%	2.60%	2.73%
Other Expenses (4000s – 6000s)	2017-18+CPI	2018-19+CPI	2019-20+CPI	2020-21+CPI

¹ There is no statutory requirement to provide Gap funding in any year; when projecting LCFF increases in the “out years” it is recommended that districts assign, reserve or otherwise set-aside any projected increase in LCFF revenues as a result of Gap funding or at least have a contingency plan in place if anticipated revenues do not materialize.

LOS ANGELES COUNTY OFFICE OF EDUCATION
Division of Business Advisory Services
Financial Management Services

FISCAL MONITORING DISTRICT ASSIGNMENTS

Dionisio Brache (562) 922-6133	Vo Chan (562) 922-6226	Rick Chau (562) 922-6505
Arcadia SD Beverly Hills USD Centinela Valley UHSD East Whittier City SD La Puente Valley ROP Las Virgenes USD Lawndale SD Lennox SD Paramount USD Santa Monica-Malibu USD	ABC USD Baldwin Park SD Culver City SD El Segundo USD Hacienda-La Puente USD Mountain View SD Palos Verdes Peninsula USD Pupil Transportation Co-op Redondo Beach USD Torrance USD	Compton USD East San Gabriel Valley ROP Hughes-Elizabeth Lakes USD La Cañada USD Lynwood USD Newhall SD Norwalk La Mirada USD Saugus Union SD Sulphur Springs SD William S. Hart UHSD
Michael Jamshidi (562) 922-6802	Jennifer Kirk (562) 922-6508	Merle Ordoñez (562) 940-1704
Bellflower USD El Rancho USD Garvey SD Hawthorne SD Inglewood USD Little Lake City SD Long Beach USD Lowell Joint SD Montebello USD Tri-Cities ROP	AVSTA Azusa USD Pasadena USD Rowland USD South Pasadena USD South Whittier SD Walnut Valley USD West Covina USD Whittier City SD Whittier UHSD	Burbank USD El Monte City SD El Monte UHSD Glendale USD Monrovia USD Rosemead SD San Antonio ROP San Marino USD Temple City USD Wiseburn USD
Teri Stockman (562) 922-6135	Andrew Surendranath (562) 922-6743	Hoyt Yee (562) 940-1705
Antelope Valley Joint UHSD Castaic Union SD Eastside Union SD Keppel Union SD Lancaster SD Los Angeles USD Palmdale SD Southeast ROP Westside Union SD Wilsona SD	Alhambra USD Downey USD Gorman SD Hermosa Beach City SD Los Nietos SD Manhattan Beach USD PINCO San Gabriel USD Santa Clarita Valley Food Svc Valle Lindo SD	Acton-Agua Dulce SD Bassett USD Bonita USD Charter Oak USD Claremont USD Covina-Valley USD Duarte USD Glendora USD Pomona USD SCROC