



January 23, 2018

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

FROM: Dr. Candi Clark, Chief Financial Officer
Business Services

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Business Advisory Services

SUBJECT: 2018-19 Governor’s Proposed Budget Updates

GOVERNOR’S PROPOSED 2018-19 BUDGET

On January 10, 2018, Governor Brown introduced his Proposed 2018-19 State Budget (Budget). This Budget proposal includes Proposition 98 funding of \$78.3 billion for 2018-19, an increase of \$4.6 billion relative to the funding level from the 2017-18 Enacted Budget. The Budget increases funding for the Local Control Funding Formula (LCFF) by nearly \$3 billion to fully implement LCFF, two years earlier than projected, with an additional \$3.5 billion going into the State’s Rainy Day Fund. These additional payments bring the Rainy Day Fund balance to \$13.5 billion, hitting the constitutional goal of 10 percent of tax revenues.

Local Control Funding Formula (LCFF)

<u>Grade Level</u>	<u>2017-18 Base Grant</u>	<u>2018-19 COLA 2.51 Percent</u>	<u>2018-19 Base Grant per ADA</u>
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

COLAs and Gap Funding Amounts

Statutory COLA increases the Base Grant rates annually. The estimated COLA for 2018-19 is 2.51 percent, 2.41 percent for 2019-20 and 2.80 percent for 2020-21. 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 provides no additional investments in the California Career Technical Education Incentive Grant (CTEIG), as fiscal year 2017-18 was the final year of the three-year program. As laid out in the initial CTEIG program, the expectation is that LEAs will use LCFF and the 9-12 grade span adjustment (GSA) funds to support the program beginning 2018-19.

Strong Workforce Program

The Proposed Budget provides \$212 million (\$200 million to fund a “K-12 specific component”) and \$12 million for local industry experts to provide technical support for 2018-19 for the Strong Workforce Program. This consortium consists of colleges, school districts and industry partners with the plan to be administered by the community colleges.

LCFF Revenue Projections

The County Office recently updated the LCFF revenue calculations for 2017-18, 2018-19 and 2019-20, 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.*

ONE-TIME FUNDS

One-Time Discretionary Funds (Mandated Cost Reimbursement)

The Proposed Budget included \$1.76 billion 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 average daily attendance (ADA) basis, estimated at \$295 per ADA. As in prior years, these funds will be used to offset LEA’s outstanding mandate reimbursement claims on a dollar for dollar basis.

Mandated Block Grant (MBG)

The 2018-19 Proposed Budget provides \$236 million for the MBG, an increase of \$6.0 million from 2017-18. See the table below for the recommended per ADA rates.

Grade Span	School District Rates	Charter School Rates
K-8	\$31	\$16
9-12	\$59	\$45

Proposition 39: California Clean Energy Jobs Act

The Proposed Budget provides no additional investments, as fiscal year 2017-18 was the final year of the five-year program approved by the voters in 2012. However, more than \$400 million in previous funding remains available.

A reminder to all LEA's that the application deadline is February 26, 2018, and that all Proposition 39 funds received, must be encumbered by the statutory deadline of June 30, 2019 (extended by AB 97, 2017-18 California Budget Act from the original date of June 30, 2018).

K-12 School Facilities

The Proposed Budget provides \$640 million in bond authority from Proposition 51 for 2018-19 to fund new construction, modernization, CTE, and charter school facility projects. Funds are released based upon the Office of Public School Construction (OPSC) processing of project applications and the State Allocation Board's approval of the projects.

Retirement - CalSTRS Rates

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Employer	10.73%	12.58%	14.43%	16.28%	18.13%	19.10%	18.10%

Under current law, once the statutory rates are achieved, CalSTRS will have the authority to marginally increase or decrease the employer contribution rate.

Retirement - CalPERS Rates

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Employer	11.847%	13.888%	15.531%	17.70%	20.00%	22.70%	23.70%

CalPERS recently reduced its investment return assumption from 7.25 percent to 7.0 percent for the June 30, 2018 valuations.

Additionally, there is a proposed policy change that the Committee will bring forth to the Board 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.

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

CATEGORICAL PROGRAMS

Lottery

LEAs should use \$146 per ADA unrestricted and \$48 per ADA restricted, for instructional material purchase, for 2017-18, 2018-19, 2019-20 and 2020-21.

WHAT'S NOT IN THE PROPOSED BUDGET

The Proposed Budget provides no funding for these critical items:

- Increasing the LCFF base grant target to reach the funding level of the top ten states
- The growing obligations for CalSTRS and CalPERS
- Home-to School Transportation programs (included in the target calculation of LCFF)
- Increasing and equalizing AB 602 base funding rates for Special Education

COUNTY OFFICE ASSISTANCE

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

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

<https://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.

CC/KDC/JY:lc
Attachments

**UPDATED BUDGET ASSUMPTION GUIDELINES (AS OF JANUARY 2018)
PROJECTIONS FOR FISCAL YEARS 2019-20 THROUGH 2021-22**

The guidelines below are provided to assist you with projections for fiscal years 2018-19, 2019-20, 2021-22 and 2021-22.

LCFF REVENUE	2018-19	2019-20	2020-21	2021-22
Statutory COLA / Net Funded COLA	2.51%	2.41%	2.80%	3.17%
Gap Funding	100.00%	100.00%	100.00%	100.00%
SPECIAL EDUCATION AND CATEGORICAL PROGRAMS				
	2018-19	2019-20	2020-21	2021-22
COLA for Special Ed and Other Categorical Programs Outside of LCFF (on state and local share only)	2.51%	2.41%	2.80%	3.17%
LOTTERY REVENUE				
	2018-19	2019-20	2020-21	2021-22
Unrestricted	\$146.00/ADA	\$146.00/ADA	\$146.00/ADA	\$146.00/ADA
Restricted for Instructional Materials	<u>48.00/ADA</u>	<u>48.00/ADA</u>	<u>48.00/ADA</u>	<u>48.00/ADA</u>
Total Lottery Revenue	\$194.00/ADA	\$194.00/ADA	\$194.00/ADA	\$194.00/ADA
OTHER FACTORS				
	2018-19	2019-20	2020-21	2021-22
CalSTRS Employer Rates	16.28%	18.13%	19.10%	18.10%
CalPERS Employer Rates	17.70%	20.00%	22.70%	23.70%
Interest Rate for 10-year Treasuries	2.90%	3.05%	3.20%	3.10%
California Consumer Price Index (CPI)	3.22%	3.04%	2.94%	2.99%
Other Expenses (4000s – 6000s)	2018-19+CPI	2019-20+CPI	2019-20+CPI	2021-22+CPI

**LOS ANGELES COUNTY OFFICE OF EDUCATION
Business Advisory Services**

FISCAL MONITORING DISTRICT ASSIGNMENTS

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Arcadia USD Beverly Hills USD Centinela Valley Union High SD East Whittier City SD La Puente Valley ROP Las Virgenes USD Lawndale Elementary SD Lennox SD Paramount USD Santa Monica-Malibu USD	ABC USD Baldwin Park USD Culver City USD 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 Union SD La Cañada USD Lynwood USD Newhall SD Norwalk-La Mirada USD Saugus Union SD Sulphur Springs Union SD William S. Hart Union High SD
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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	Antelope Valley Sch. Trans Agcy. Azusa USD Pasadena USD Rowland USD South Pasadena USD South Whittier SD Walnut Valley USD West Covina USD Whittier City SD Whittier Union High SD	Burbank USD El Monte City SD El Monte Union High SD Glendale USD Monrovia USD Rosemead SD San Antonio ROP San Marino USD Temple City USD Wiseburn USD
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Antelope Valley Union High SD 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 Joint SD Hermosa Beach City SD Los Nietos SD Manhattan Beach USD PINCO San Gabriel USD Santa Clarita Valley Food Services Valle Lindo SD	Acton-Agua Dulce USD Bassett USD Bonita USD Charter Oak USD Claremont USD Covina-Valley USD Duarte USD Glendora USD Pomona USD SCROC
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