



June 9, 2022

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

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SUBJECT: 2022-23 Governor's May Revision Budget Updates

This Informational Bulletin includes the best information we have based on the 2022-23 May Revision Budget and subsequent trailer bill language. The Budget Subcommittees continue to meet daily as part of the negotiation and finalization phase of the Adopted Budget, which is currently scheduled to be signed on June 15, 2022. We anticipate updates and changes throughout this process. We will provide updated and timely information as it becomes available. Meanwhile, please refer to the Budget Assumptions and Guidelines in Attachment 1.

On May 13, 2022, Governor Newsom released his 2022-23 May Revision Budget. The budget proposes a Proposition 98 minimum funding guarantee of \$93.7 billion for 2022-23, an increase of \$7.9 billion relative to the funding level from the 2021-22 January Proposed Budget, and an almost \$22.8 billion increase from the 2021-22 Adopted Budget. The guarantee is still projected to be based on Test 1, which is estimated at 38 percent of the General Fund revenues plus local property tax revenue.

Local Control Funding Formula (LCFF)

The LCFF establishes a base with supplemental and concentration add-ons for English Learners (EL), free and reduced-price meal eligible students and foster youth students and provides additional funding for kindergarten through grade three (K-3) Class Size Reduction (CSR), Grades 9-12, Home-to-School Transportation and the Targeted Instructional Improvement Grant (TIIG).

The Base Grant rates per ADA for 2022-23, 2023-24 and 2024-25 based on the Governor’s May Revised Budget are:

Grade Level	2021-22 Base Grant/ ADA	2022-23 COLA 6.56%	Add'l LCFF Invest of \$2.1B	2022-23 Base Grant/ ADA	2023-24 COLA 5.38%	2023-24 Base Grant/ ADA	2024-25 COLA 4.02%	2024-25 Base Grant/ ADA
K-3	\$8,093	\$531	\$266	\$8,890	\$478	\$9,368	\$377	\$9,7451
4-6	\$8,215	\$539	\$270	\$9,024	\$485	\$9,509	\$382	\$9,891
7-8	\$8,458	\$555	\$278	\$9,291	\$500	\$9,791	\$394	\$10,195
9-12	\$9,802	\$643	\$322	\$10,767	\$579	\$11,346	\$456	\$11,802

Augmentation Grant

The Augmentation Grant provides additional funding for grades TK-3 and 9-12 Career Technical Education (CTE). The CSR augmentation is 10.4 percent of the K-3 Base Grant, estimated at \$925 per average daily attendance (ADA) for 2022-23. Districts must maintain average class sizes of 24:1 as a condition of receipt unless a local alternative ratio is bargained. This class size requirement is not subject to waiver by the State Board of Education. The CTE augmentation is 2.6 percent of the 9-12 Base Grant, estimated at \$280 per ADA for 2022-23.

Grade Span	Effective 2022-23 Base Grant per ADA	GSA Augmentation	2022-23 Adjusted Base Grant per ADA
K-3	\$8,890	\$925	\$9,815
4-6	\$9,024	-0-	\$9,024
7-8	\$9,291	-0-	\$9,291
9-12	\$10,767	\$280	\$11,047

Supplemental and Concentration Grants

School districts and charter schools are entitled to supplemental grant increases equal to 20 percent of the adjusted base grant (including CSR and CTE funding) for the percentage of enrolled students who are English learners, eligible for the free or reduced-price meals program, or in foster care. An additional 65 percent per-pupil increase is provided as a concentration grant for each percentage of eligible students enrolled beyond 55 percent of total enrollment, with 15 percent of the concentration grant to be used to increase the number of adults providing direct services (nurses, teachers, counselors, paraprofessionals, and others) to students.

Grade Span	2022-23 Adjusted Base Grant per ADA	20% Supplemental Grant per ADA	65% Concentration Grant per ADA
K-3	\$9,815	\$1,963	\$6,380
4-6	\$9,024	\$1,805	\$5,866
7-8	\$9,291	\$1,858	\$6,039
9-12	\$11,047	\$2,209	\$7,181

CalSTRS and CalPERS

Beginning in 2021-22, the CalSTRS Board has limited authority to increase or decrease rates by a maximum of 1 percent annually not to exceed 20.25 percent of creditable compensation. The CalPERS Board recently set rate for 2022-23 at 25.37 percent.

The projected CalSTRS and CalPERS rates are included in the table below.

CalSTRS Rates

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Employer	16.28%	17.10%	16.15%	16.92%	19.10%	19.10%	19.10%	19.10%

CalPERS Rates

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Employer	18.062%	19.721%	20.70%	22.91%	25.37%	25.20%	24.60%	23.70%

Reserves / Reserve Cap

We continue to reinforce the need for adequate reserve levels. The Government Finance Officers Association (GFOA), a national organization representing federal, state, and local finance officials, recommends school districts and other local governments maintain reserves of at least two months of operating expenditures (approximately a 17 percent reserve) to mitigate revenue shortfalls and unanticipated expenditures. The association further recommends all governments develop a formal policy regarding their minimum reserves and consider maintaining reserves larger than 17 percent if revenues or expenditures are especially volatile.

Given the current health and economic volatility, it is critical that decisions about reserve levels are made thoughtfully and deliberatively. Inadequate reserves force districts to react quickly, which can cause significant disruptions to student programs and employees.

Although general fund reserves are an indicator of the cash balance, they are not the same as cash – cash is but a portion of reserves. Districts’ attention should remain on maximizing the use of any one-time funds due to the restrictive nature of those funds for the 2021-22 and 2022-23 fiscal years, thereby reserving local and unrestricted funds to address the potential impact of possible deterioration of revenues in 2022-23. This deterioration could come from economic impacts as well as the anticipated “ADA cliff” when the protections of the hold harmless provisions end or if

California's K-12 public school enrollment, which precipitously declined during the pandemic, does not recover to pre-pandemic levels.

The Governor's May Revised Budget proposed deposits to the Public School System Stabilization Account (PSSSA) will be required in 2021-22 and 2022-23, bringing the projected balance to \$9.7 billion at the end of 2022-23. Under current law, a 10 percent cap on school district reserves is triggered in fiscal years immediately succeeding those in which the PSSSA balance is equal to or greater than 3 percent of the total K-12 share of the Proposition 98 guarantee.

SB 751 provided additional provisions to the reserve cap requirements:

- Basic aid districts and districts with ADA less than 2,501 are exempt from the reserve cap requirements.
- A county superintendent of schools may grant a school district under its jurisdiction an exemption from the requirements of subdivision (a) for up to two consecutive fiscal years within a three-year period if the school district provides documentation indicating that extraordinary fiscal circumstances, including but not limited to multiyear infrastructure or technology projects, substantiate the need for a combined assigned or unassigned ending general fund balance that exceeds the cap limits.

The portions of fund balance subject to the cap are the assigned and unassigned reserves in the General Fund (Fund 01) and the special reserve fund for other than Capital Outlay (Fund 17). Any funds that are in the committed portion of the fund balance, meaning that the governing board took action to set aside the funds, are not included in the reserve cap calculation. GASB 54 defines the unrestricted components of fund balance as follows:

- Committed Fund Balance (Objects 9750-9769) – Amounts subject to internal constraints self-imposed by formal action of the governing board, which may be redirected in the same manner in which the original constraints were imposed.
- Assigned Fund Balance (Objects 9770-9788) – Amounts intended to be used for specific purposes but for which the constraints do not meet the criteria to be reported as restricted or committed.
- Unassigned Fund Balance (Objects 9789-9790) – Amounts not classified as restricted, committed, or assigned, which includes the reserve for economic uncertainties and any unappropriated amounts.

Districts are strongly encouraged to designate commitments during the budget development process to adjust funds at fiscal year-end.

Additional guidance and recommendations provided in a FCMAT Alert issued in March 2022 are included in Attachment 2.

Mandated Block Grant (MBG)

The 2022-23 May Revised Budget provided COLA increases for the MBG for a total \$262.8 million. The rates continue to be separated into grade span-specific rates, with grades 9-12 receiving higher amounts based on the inclusion of the Graduation Requirement mandate. See the table below for the per ADA rates.

Grade Span	2022-23 School District Rates	2023-24 School District Rates	2024-25 School District Rates
K-8	\$34.94	\$36.82	\$38.30
9-12	\$67.31	\$70.93	\$73.78

Grade Span	2022-23 Charter School Rates	2023-24 Charter School Rates	2024-25 Charter School Rates
K-8	\$18.34	\$19.33	\$20.11
9-12	\$50.98	\$53.72	\$55.88

We recommend that school districts continue to adhere to all mandate requirements. LEAs that opted in to the MBG can budget this revenue. Funds are generally received in mid-November, with the amount paid equal to 100 percent of each LEA’s entitlement.

Special Education

The May Revision continues the Governor’s January Budget proposal and maintains the increased special education base rate at \$820/ADA. As in the January Budget, the proposal would apportion this base funding on a three-year rolling average of LEA ADA allocated through SELPAs.

Hold Harmless ADA

The May Revision proposes to mitigate the drop in enrollment, and subsequent ADA that is being experienced in 2021-22 by local educational agencies (LEAs) due to the pandemic. To do this, the May Revision proposes allowing all classroom-based LEAs the ability to be funded in 2021-22 on the greater of their current-year ADA or their current-year enrollment adjusted for pre-COVID-19 absence rates. The proposal to allow school districts the use of the average of the three prior years’ ADA for LCFF funding purposes will be adjusted to allow for this change in 2021-22. These two proposals represent an estimated \$3.3 billion in ongoing General Fund plus an additional \$463 million in one-time Proposition 98 General Fund dollars.

LEAs that experienced a decline in their current year Unduplicated Pupil Count (UPC) percentage are somewhat insulated from the impact as the UPP, which as the basis for supplemental and concentration grant funding, is calculated using a rolling three-year average. The three-year average is intended to shield LEAs from the impact of a single year’s change in unduplicated pupils. However, even a rapid change in a single year can impact an LEA’s LCFF entitlement, especially those LEAs that receive concentration grant funds. We strongly advise that districts continue the conversations about right-sizing their budgets and staffing, especially if the student population does not recover with the return to in-person instruction.