

# SONOMA COUNTY OFFICE OF EDUCATION



## **SCOEBIZ** Business Services

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### **Bulletin No. 18-05**

### **October 2017**

October 24, 2017

To: District Superintendents  
District and Charter School Chief Business Officials

From: Shelley Stiles, Director External Fiscal Services  
Judy Thomson, Director External Fiscal Services

Subject: 2017-18 Interim Reports

We continue to offer our support to Sonoma County School Districts and Charters as we go through this period of recovery from the firestorm disaster. We understand that there will be many challenges facing school Districts/Charters over the next few years resulting from the displacement of families and students. As you begin to work on your 1<sup>st</sup> Interim Report, we recognize that each District/Charter's circumstance is different. For some Districts/Charters, you will need to consider the potential loss of ADA and additional operational costs, including the impact on cash flow. We know that it will be challenging to develop clear assumptions about ADA and Multi-Year Projections. Complete and accurate ADA and property tax information may not be available for several months and will change over time. In light of these circumstances, please provide SCOE with the most realistic assumptions you have as of the 1<sup>st</sup> Interim Reporting Period.

The purpose of this letter is to review the process for the Interim Reports. The financial reporting periods and requested forms are due as listed below. Please plan your work around these deadlines:

<u>Interim Report period</u>	<u>Reporting Dates covered</u>	<u>Due to SCOE</u>
1 <sup>st</sup> Interim	July 1 through October 31	December 15
2 <sup>nd</sup> Interim	July 1 through January 31	March 15
3 <sup>rd</sup> Interim*	July 1 through June 30 projection	June 1

\*Only applicable to districts that had either a Qualified or Negative certification.

#### **2017-18 State Budget**

On June 27, 2017, Governor Brown signed the State's Budget Act for 2017-18. The enacted budget increases education funding over the May revision, however, it should be noted that the projected increases are based on higher revenues from personal income capital gains. With the volatility of State revenue, future STRS and PERS contribution rates, and economic risks on the horizon, it will remain important to maintain reserves and fiscal flexibility. It is estimated that the LCFF Target rates will be 97 percent funded.

**Guidelines** ~ It is anticipated that the Common Message for the 2017-18 First Interim Report will be issued on or near October 31, 2017 and will be e-mailed to you as soon as it becomes available. Please read the Common Message carefully, it is a wealth of information. The following are SCOE guidelines:

#### **Enrollment differences since October 4, 2017**

In your narrative or assumptions for your Multi-Year Projection, please document your enrollment on Census Day (October 4, 2017) and your enrollment on October 31, 2017. Include a list of your closure days; this will help tell your story. Each one will be different.

## **Dartboard**

Use the *SSC School District and Charter School Financial Projection Dartboard 2017-18 Adopted State Budget* for economic planning factors.

## **Gap Percentage in the Out-Years**

The gap funding percentage used in the out-years can vary dramatically **based on a LEA's risk tolerance**. The more uncertain a LEA is of the variables used in calculating LCFF, such as the stability of its unduplicated pupil count or grade span ADA estimations, the lower the risk tolerance. LEAs with low risk tolerance, minimal reserves, or significant gap funding amounts (difference between "floor" and "target") should use more conservative gap funding percentages such as those incorporated in School Services of California (SSC) LCFF Simulator.

<b>GAP funding percentage</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>
SSC Simulator	43.19%	39.12%	41.60%
FCMAT Calculator (default %s are based on DOF estimates) **	43.19%	66.12%	64.92%

\*\* The gap funding % of FCMAT Calculator is easily modified on the Assumptions tab.

**Please note: Upon full implementation of LCFF, the calculation of supplemental and concentration grant funds will be based solely on the LCFF revenue calculation (Ed code 42238.02), and at such time, the minimum proportionality percentage will no longer be applicable.**

## **Expanded Transitional Kindergarten**

Legislation allows for LEAs to enroll students who turn 5 after December 2<sup>nd</sup> in a Transitional Kindergarten (TK) program at the start of the school year... sometimes called Expanded TK or ETK. These ETK students should:

- NOT be included in the Unduplicated Pupil Count Percentage.
- NOT claim ADA for these students until these students turn 5 years old.

LCFF Calculator ~ Enrollment and unduplicated pupils counts used in the LCFF Calculator should *exclude* ETK students.

## **Routine Restricted Maintenance (RRM) ~ Resource 8150**

Education code requires school districts to set aside 3% of total General Fund expenditures in a Routine Restricted Maintenance Account (RRMA) for 20 years after receipt of School Facility Program Funds. These funds are to be used to make necessary repairs, maintenance, and replacements to ensure the facilities remain in good repair. The 2015-16 State Budget introduced a phase-in of the 3% contribution to RRMA.

For the 2015-16 and 2016-17 fiscal years, the required minimum amount to be deposited into the account shall be the ***lesser*** of the following amounts:

- 1) Three percent (3%) of the total general fund expenditures for that fiscal year OR the amount that the school district deposited into the account in the 2014-15 fiscal year.

For the 2017-18 to 2019-20 fiscal years, the required minimum amount to be deposited into the account shall be the ***greater*** of the following amounts:

- 2) The lesser of three percent (3%) of the general fund expenditures for that fiscal year OR the amount that the school district deposited into the account in the 2014-15 fiscal year. THIS IS THE SAME CRITERIA USED FOR 2015-16 AND 2016-17 ~ SEE 1) ABOVE.
- 3) Two percent of the total general fund expenditures of the applicant school district for that fiscal year.

Note: The aforementioned phase-in contribution rates are no longer available and the requirement becomes 3% once a district received its first apportionment from Proposition 51 (\$9 billion of statewide bond funds passed in November 2016).

✚ **One-Time Discretionary Funds ~ an offset to Mandate Costs Debt ~ Resource 0000, object 8550**  
 These 2017-18 **one-time** discretionary funds will be distributed on the basis of 2016-17 Second Principal Apportionment (P-2) ADA and will be certified at **\$147.32 per ADA**. These funds will be paid in three equal payments – December 2017, April 2018, and May 2018, regardless of whether or not LEAs have outstanding mandate claims. For LEAs with outstanding mandate claims, the funding allocated will count toward retiring the state’s mandate obligation. This funding is unrestricted. **Be cautious not to budget these funds in the out-years of the MYP.**

✚ **Educator Effectiveness ~ Resource 6264**  
 The 2015-16 State Budget provided Educator Effectiveness funding which could be used for professional development of certificated teachers, administrators, and paraprofessional educators. As a condition of apportionment, LEAs must submit a final expenditure report by July 1, 2018. This report can be found at: <http://www.cde.ca.gov/fg/aa/ca/educatoreffectiveness.asp>

✚ **Mandate Block Grant ~ Resource 0000, object 8550**  
 For 2017-18 through 2019-20, the mandate block grant rates are estimated to be:  
 ~ School districts will receive approximately \$58.25 per ADA for grades 9-12; \$30.34 per ADA for grades K-8.  
 ~ Charter schools will receive approximately \$44.04 per ADA for grades 9-12; \$15.90 per ADA for grades K-8. The following school district mandates are *not* included in the 2017-18 MBG list and are still eligible to file reimbursement claims through the SCO for the costs incurred in FY 2017-18. However, funds must be appropriated for these mandate programs before any reimbursement claims can be paid.

Current Program Name	Program Number
Teacher Incentive Program	252

✚ **Instructional Materials.**  
 Budgets and multi-year projections should consider the costs associated with instructional material adoptions.

For more detailed information go to:  
<http://www.cde.ca.gov/ci/cr/cf/> and click on “Instructional Materials Frequently Asked Questions” for **direct responses to realistic/practical questions.**

✚ **Basic Aid Supplemental Funding (BAS)**  
 For districts that sponsor charter schools and receive BAS funding, please be aware this funding has been capped at the sponsoring district’s in-lieu of property tax transfer amount related to non-resident charter school students and that the fluctuation in funding from one year to the next can be significant due to: the funding status of the district of residence (LCFF vs. Basic Aid), the number of non-resident charter school students, and other factors. Each district is uniquely sensitive to possible changes to their BAS funding.

Due to volatility in property taxes to school districts and continued controversy over this funding, the County recommends basic aid supplemental funding only be used for one time purposes.

### **Basic Aid/ Excess Tax School Districts**

Complete and accurate ADA and property tax information may not be available for several months and will change over time. In light of these circumstances, please provide SCOE with the most realistic assumptions you have as of the 1<sup>st</sup> Interim Reporting Period.

*Minimum State Aid* ~ Under LCFF, basic aid districts will receive minimum state aid (hold harmless funding) of no less than the amount received in 2012-13, which represents their categorical allocation net of 8.92% fair share reduction.

*Education Protection Account (EPA)* ~ All districts are guaranteed a minimum of \$200 per ADA of EPA funding through the 2018-19 fiscal year.

*RDA Residual (8047 RDAX)* ~ Basic Aid/Excess Tax school districts should not budget more than 50% of their prior *full* year RDA Residual (8047 – RDAX) tax revenues.

*RDA asset liquidation (8047-LQID)* ~ Tax revenues should only be budgeted upon receipt.

*District of Choice (DOC) funding* ~ The Enacted Budget extended the DOC program to July 01, 2023. However, there are significant changes to the program, such as: registration of the program with the State Superintendent of Public Instruction (SPI) and the County; required public disclosures; and reduced funding, to name a few. By July 1, 2018, districts that elect to be in the program must register with the SPI. For a school district of choice that is a basic aid school district, the apportionment funding for applicable ADA shall be 25% (reduced from 70%) of the school district LCFF base grant that would have been apportioned to the school district of residence. This is effective for the 2017-18 fiscal year. See Ed Code 48301 through 48317.

Basic aid districts are subject to the Local Control and Accountability Plan (LCAP) and Supplemental and Concentration Grant regulations under LCFF.

### **K-3 Grade Span Adjustment (GSA)**

School districts must maintain or continue to make progress towards an average K-3 class size of **24 by school site** unless a collectively bargained alternative to the statutory requirements have been agreed upon. If an annual audit of a school district finds the district out of compliance, the CDE will retroactively reduce the district's funding. There is no waiver process. Please consider actual 2017-18 enrollment **by school site** now that the school year has begun. Actual amounts may be different than what you anticipated in the preparation of your adopted budget.

### **Form AB 2756 Reporting Requirements**

Please be reminded that Education Code Sections 42127 and 42127.6 require districts to submit to the County Office any studies, reports, evaluations, or audits done of the district that contain evidence that the district is showing fiscal distress. The AB2756 Reporting Requirement form is used to communicate such work and should be completed by all LEAs and then returned to SCOE with all interim financial reporting. The form is available at <http://www.scoe.org/pub/htdocs/fiscal-forms.html>

### **STRS On Behalf Contribution ~ Resource 7690**

Districts should adjust their 2017-18 budget to reflect a STRS On- Behalf pension contribution. An estimate similar to 2016-17 may be utilized. This will aid with account analysis and ensure the Special Ed MOE and other reporting requirements reflect this information consistently from year to year going forward. At the end of the year, a journal entry will be prepared to record actual STRS on-behalf costs when actual data is known.

## **Cash Flow Report**

Please notify SCOE immediately if you do not anticipate having sufficient cash for all funds to remain positive. Please note:

- ✓ Cash in all funds must be positive at June 30, 2018.  
Education Code Section 42603 allows LEAs to borrow between funds temporarily. There are limitations which are noted below:
  - No more than 75% of the money held in any fund during the current fiscal year may be transferred.
  - The funds must be repaid by June 30<sup>th</sup> of the current fiscal year if the transfer was completed prior to the last 120 days of the fiscal year.
  - If the funds were transferred within the last 120 days of the fiscal year, repayment of the funds must be made prior to June 30<sup>th</sup> in the subsequent fiscal year.
  - If borrowing from Fund 21, does your bond agreement allow it?
- ✓ Changes in property valuations can affect the cash flow of property taxes.
- ✓ RDA residual (RDAX) tax revenues for 2017-18 are unknown and uncertain.
- ✓ RDA asset liquidation (LIQD) tax revenue is considered one-time revenue and should not be budgeted.
- ✓ Cash flow related to funding can be found at:
  - *Principal Apportionment:*  
Go to: <http://www.cde.ca.gov/fg/aa/pa/index.asp>
    - To get monthly payment schedule, click on Payment Schedule Summary - LEA detail on the following website: <https://www.cde.ca.gov/fg/aa/pa/pa1718.asp>
  - *Categorical funding:*  
Estimated cash flow schedules (prepared monthly), reporting deadlines and a list program funding by name is available from this site. Go to: <https://www.cde.ca.gov/fg/aa/ca/estcashflow.asp>
  - *Education Protection Account (EPA) Apportionment:*  
EPA funding uses Resource 1400, Object 8012 and will be received quarterly.  
Go to: <https://www.cde.ca.gov/fg/aa/pa/epa1718.asp>
- ✓ A Cash Flow report template may be found on the Data Processing website at <http://www.scoe.org/pub/htdocs/fiscal-forms.html> along with the multi-year projection worksheet. Also accepted are either the SACS software version or the district's own version.

## Forms to Submit with your Interim Report

The full Interim Report software package, including the cash flow and MYP, should be submitted to your SCOE Accountant by e-mail (dat file) and in hard copy. The following information/forms are requested.

### **LCFF Calculator – FCMAT Calculator**

Use the FCMAT Calculator 18.2b version or newer, if available. It can be found at [www.fcmat.org](http://www.fcmat.org) Please provide an electronic copy *and* the following tabs of the calculator in hard copy:

- District MYP Data
- Charter MYP Data (if applicable)
- District Class Size (if alternative ratio due to collective bargaining, please so indicate)
- District NSS (if applicable)
- District In-Lieu (if applicable)
- **Calculator**
- LCAP MPP
- Summary

 **Balancing Spreadsheet** ~ Due to the change to the LCFF funding model, there is presently no mechanism or technical review check (TRC) in the SACS2017ALL software which assesses State revenue. SCOE created a Balancing Spreadsheet that will assist in determining if your SACS2017ALL LCFF revenue sources tie with your LCFF Calculator, Escape, and Multi-year projection. The document can be found at <http://www.scoe.org/pub/htdocs/fiscal-forms.html>

### **Combined District and Charter School Enrollment and ADA Data**

**For districts with conversion charter schools included in the General Fund**, please consider completing a spreadsheet which combines District and conversion charter school enrollment and ADA data to provide a complete picture of the students affecting the general fund. Unduplicated count information can also be chronicled to offer a comprehensive look at the District. A sample worksheet template can be found at <http://www.scoe.org/pub/htdocs/fiscal-forms.html> and is called LCFF enrollment ADA.

 **Cash Flow Statement** (SACS or alternate form)

 **Multi-Year Projection Worksheet** with narrative/justifications/assumptions (SACS software form, SCOE's template, or district's own form). The MYP must report unrestricted, restricted and combined totals.

 **District Narrative and budget assumptions**, as submitted to your Board

 **District Narrative of Special Funds**, if not included in the items above

 **AB2756 Reporting Requirements form**, found at <http://www.scoe.org/pub/htdocs/fiscal-forms.html>

### **\*\*\*FCMAT's "Fiscal Health Risk Analysis"**

- **~To be prepared by Districts with new CBOs or new Superintendents (First Interim Only).** There are many facets to what makes a district financially sound. This Analysis provides an independent view of a district's financial strength. It is intended that by reviewing this document with your Superintendent, possibly new insights will present themselves and a greater understanding will be attained. The Analysis can be found at [www.fcmat.org](http://www.fcmat.org) in the right column under the "Latest Updates" heading approximately 2/3rds of the way down.

### **Interim SACS forms:**

- Certification Page, original signature
- General Fund Summary - Combined Unrestricted/Restricted Report
- General Fund Unrestricted Report
- General Fund Restricted Report
- Other Funds – Two-page Summary
- Form A – ADA worksheet
- Form CS – Criteria and Standards Summary Review – completed in full, with explanations
- Technical Review Check (Exceptions only)