

SCOE BIZ

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To: Chief Business Officials
From: Sarah Lampenfeld, Director, External Fiscal Services
Subject: May Revision Guidance for the 2021-22 Budget Adoption

The purpose of this letter is to provide 2021-22 Adopted Budget guidance, along with the release of *The Common Message*, which will follow in early June or as soon as published.

As a result of unexpected surges in state revenues and robust federal stimulus funding, the 2021-22 May Revision is proposing bold investments to address the immediate needs of Californians, while building the foundations of a more resilient state in the future. The Proposed Budget for K-14 education includes a mix of ongoing and one-time investments that focus on equity. The Budget proposal lays out a "California For All Kids Plan" which seeks to close readiness and opportunity gaps for underserved students.

The May Revision proposes Proposition 98 funding to increase above Governor Newsom's January estimates, which would equate to historic per-student state revenues at \$13,977. When state and federal resources are layered together, the per-student rate jumps to an unprecedented \$21,152.

With the increase of revenues, the Governor proposes to eliminate the Proposition 98 supplemental payments while depositing \$4.6 billion into the Public School System Stabilization Account (PSSSA). Therefore, this triggers the statutory cap for fiscal year 2022-23 – limiting how much K-12 districts can maintain in their local reserves, with a few exceptions. The May Revision further reduces the deferral included in the 2020-21 Enacted Budget by eliminating February through May 2022 deferrals - leaving only June 2022's cash deferral. Furthermore, "to help local educational agencies (LEAs) address ongoing fiscal pressures" the Governor proposes large increases to the COLA in 2021-22.

The May Revision recognizes the statutory COLA for 2021-22 of 1.70% and adds an additional 1% - bringing the COLA to 2.70%. The 2.70% COLA, compounded with 2020-21's statutory COLA of 2.31%, results in an LCFF COLA of 5.07% for 2021-22. It's important for each LEA to evaluate their fiscal health in comparison to the proposed COLAs. LEAs will need to assess the risk in using the higher COLA. LEAs with low reserves, declining enrollment, or other economic pressures may opt to use the lower COLA or assign the difference in their fund balance in the event the Governor's projections turn out to be overly optimistic. Please include information about which rate the LEA has chosen in your assumptions or narrative. Creating an assignment in the reserve balance for COLA changes may also be prudent.

The “mega COLA” is not added to all funding, below is a break down of the difference COLAs applied to 2021-22 revenues.

COLA	Program(s)
5.07%	LCFF
4.05%	Special Education
1.70%	Other categorical programs – Child Nutrition, State Preschool, Youth in Foster Care, Mandated Block Grant, Adult in Correctional Facilities Program, American Indian Education Centers, and the American Indian Early Childhood Education Program

2020-21 and 2021-22 Cash Flow Projections

While the May Revision proposes to eliminate the ongoing deferral scheduled for February through May 2022, the proposals do not impact current years deferrals. Therefore, monthly updates of cash are imperative for the 2021-22 year.

Now is the time to [update your 2020-21 Cash Flow](#) with actuals through April 2021 and revise your estimates for May and June 2021. Accurate 2021-22 Cash Flow Projections provide reasonable June 30 cash balance estimates. The June 30 cash balance will be your 2021-22 July 1 beginning balance estimate.

2021-22 Adopted Budget and Multi-Year Projections (MYP)

The following should be considered when preparing the 2021-22 Adopted Budget, which is due to SCOE within 5 days of adoption or no later than July 1, 2021 (**whichever is sooner**):

-  **Common Message (to follow)**
 Please read *The Common Message – May Revision 2021-2022* ([will follow this memo when available](#)).
-  **Dartboard (attached)**
 Use the *SSC School District and Charter School Financial Projection Dartboard 2021-22 May Revision* (provided) for economic planning factors. Parameters, such as the COLA, PERS and STRS contribution rates have changed since the January budget proposal and preparation of 2020-21 Second Interim Reports.
-  **LCFF Calculator**
 On May 17th, FCMAT released a new redesigned LCFF calculator that included the May Revision estimates. This version of the calculator (22.1b or higher) should be used for 2021-22 budget development. The redesigned LCFF includes:

 - An eight year-fixed structure that includes three historical years, current budget year and four projection years
 - Simplified data entry tab for all projection types
 - Simplified navigation, including conditional formatting based on each LEA projection type and conditions specific to the LEA, that identifies fields that required user data entry
 - Removal of all historical elements supporting transition calculations

SCOE recommends sending LCFF calculators to your Fiscal Advisor before finalizing projections in the 2021-22 Adopted Budget due to the significant changes made to the calculator.

✚ Reserves ~ Transparency requirements

Education Code 42127(a)(2)(B)&(C) requires school districts provide additional disclosures on the combined assigned and unassigned fund balance in excess of the minimum recommended reserve for economic uncertainty, as defined by State regulations. At the *public hearing* on the proposed 2021-22 budget, prescribed information must be provided for public review and comment.

✚ STRS and PERS contribution rates:

Please note that PERS contribution rates have changed since the January proposed budget and preparation of 2020-21 Second Interim Reports.

Employer Contribution Rates – May Revise 2021	2020-21	2021-22	2022-23	2023-24
STRS – Actual and projected rates	16.15%	16.92%	19.10%	19.10%
PERS – Actual and projected rates	20.70%	22.91%	26.10%	27.10%

✚ Transportation:

Maintenance of Effort (MOE) ~ Of the funds received for home-to-school transportation, a school district is required to expend no less than the amount of funds it expended for home-to-school transportation in the 2012-13 fiscal year or the amount of revenue received in 2012-13, whichever is less. This requirement is on-going.

Members of the JPA ~ Each member district receiving funds must continue to spend the funding on transportation, including, but not limited to, the JPA.

✚ Basic Aid/ Excess Tax School Districts

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.

✚ RDA Residual (8047 – RDAX) tax revenues ~ Basic Aid/Excess Tax school districts should budget no more than 50% of their prior *full* year RDA Residual tax revenues or what has been received this fiscal year to date, whichever is greater.

✚ RDA asset liquidation (8047-LQID) tax revenues ~ Basic Aid/Excess Tax school districts should only budget these tax revenues upon receipt.

✚ District of Choice (DOC) funding ~ Remember this funding extends to July 1, 2023 and is included in the audit guide. Don't forget to follow all the guidelines in Ed Code 48301 through 48317.

✚ Education Protection Account (EPA) funding ~ All districts are guaranteed a minimum of \$200 per ADA of Education Protection Account (EPA) funding. The guarantee of a

minimum of \$200 per ADA from Education Protection Account (EPA) is dependent on basic aid status, and districts that transition out of basic aid will lose additional EPA revenue for every state dollar they receive as a state-funded LCFF district.

✚ **Basic Aid/Community Funded districts** are subject to the Local Control and Accountability Plan (LCAP) and Supplemental and Concentration Grant regulations under LCFF.

✚ **Basic Aid Supplemental Funding (BAS)**

For districts that sponsor charter schools and receive BAS funding, please remember that this funding has been capped at the sponsoring district's in-lieu of property tax transfer amount related to out-of-district charter school students. In addition, 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 debate over this funding, the County recommends basic aid supplemental funding only be used for one-time purposes.

✚ **LCAP Public Hearing reminder**

The **LCAP public hearing** must be on the same day as the budget public hearing and requires the agenda to be posted at least 72 hours prior to public hearing. The public meeting for the **LCAP adoption** and budget adoption may be no sooner than the subsequent day. LCAPs must be adopted by June 30 prior to the fiscal year for which it is created.

Other Proposals/Considerations

- ✚ Increase to the concentration grant funding from 50% to 65%.
 - Remember LEAs would be required to demonstrate how these funds were used in the Local Control and Accountability Plan (LCAP)
- ✚ Increase of \$277.7 million one-time in federal funding to IDEA from the American Rescue Plan
- ✚ Investment in the educator workforce by provided \$3.3 billion in support initiatives and training
- ✚ Provide universal access to TK to all four-year-olds in California by 2024-25
- ✚ Access to subsidized school meals for students with \$150 million in ongoing funding

Remember all LEAs will experience an "ADA cliff" due to the hold harmless provision of 2020-21, whether it's in 2021-22 or 2022-23. All LEAs should be mindful to align staffing to enrollment and remain fiscally prudent with the influx of one-time state and federal revenues in the May Revision.

Please contact Sarah Lampenfeld or your SCOE Fiscal Advisor if you have questions, need assistance or advice. We are here to assist districts however possible.

SSC School District and Charter School Financial Projection Dartboard 2021–22 May Revision

This version of School Services of California Inc. (SSC) Financial Projection Dartboard is based on the Governor’s 2021–22 May Revision. We have updated the cost-of-living adjustment (COLA), Consumer Price Index (CPI), and ten-year T-bill planning factors per the latest economic forecasts. We have also updated the Local Control Funding Formula (LCFF) factors. We rely on various state agencies and outside sources in developing these factors, but we assume responsibility for them with the understanding that they are general guidelines.

LCFF PLANNING FACTORS					
Factor	2020–21	2021–22	2022–23	2023–24	2024–25
Department of Finance (DOF) Statutory COLA	2.31%	1.70% ¹	2.48%	3.11%	3.54%
SSC Estimated Planning COLA	0.00%	5.07% ²	2.48%	3.11%	3.54%

LCFF GRADE SPAN FACTORS FOR 2021–22				
Entitlement Factors per ADA*	K–3	4–6	7–8	9–12
2020–21 Base Grants	\$7,702	\$7,818	\$8,050	\$9,329
Mega COLA at 5.07%	\$390	\$396	\$408	\$473
2021–22 Base Grants	\$8,092	\$8,214	\$8,458	\$9,802
Grade Span Adjustment Factors	10.4%	–	–	2.6%
Grade Span Adjustment Amounts	\$842	–	–	\$255
2021–22 Adjusted Base Grants ^{3,4}	\$8,934	\$8,214	\$8,458	\$10,057

*Average daily attendance (ADA)

OTHER PLANNING FACTORS						
Factors		2020–21	2021–22	2022–23	2023–24	2024–25
California CPI		2.14%	3.84%	2.40%	2.23%	2.42%
California Lottery	Unrestricted per ADA	\$150	\$150	\$150	\$150	\$150
	Restricted per ADA	\$49	\$49	\$49	\$49	\$49
Mandate Block Grant (District)	Grades K–8 per ADA	\$32.18	\$32.79	\$33.60	\$34.64	\$35.87
	Grades 9–12 per ADA	\$61.94	\$63.17	\$64.74	\$66.75	\$69.11
Mandate Block Grant (Charter)	Grades K–8 per ADA	\$16.86	\$17.21	\$17.64	\$18.19	\$18.83
	Grades 9–12 per ADA	\$46.87	\$47.84	\$49.03	\$50.55	\$52.34
Interest Rate for Ten-Year Treasuries		1.30%	2.13%	2.40%	2.30%	2.40%
CalSTRS Employer Rate ⁵		16.15%	16.92%	19.10%	19.10%	19.10%
CalPERS Employer Rate ⁵		20.70%	22.91%	26.10%	27.10%	27.70%
Unemployment Insurance Rate ⁶		0.05%	1.23%	0.20%	0.20%	0.20%

STATE MINIMUM RESERVE REQUIREMENTS	
Reserve Requirement	District ADA Range
The greater of 5% or \$71,000	0 to 300
The greater of 4% or \$71,000	301 to 1,000
3%	1,001 to 30,000
2%	30,001 to 400,000
1%	400,001 and higher

¹Applies to Child Nutrition, Preschool, Foster Youth, American Indian Education Centers/American Indian Early Childhood Education, and Mandate Block Grant.

²Amount represents the 2021–22 statutory COLA of 1.70% plus an augmentation of 1.00%, compounded with the 2020–21 unfunded statutory COLA of 2.31%.

³Additional funding is provided for students who are designated as eligible for free or reduced-price meals, foster youth, and English language learners. A 20% augmentation is provided for each eligible student with an additional 50% for each eligible student beyond the 55% identification rate threshold.

⁴May Revise proposes an augmentation to increase the 50% to 65%, with the condition that the additional 15% be used to increase the number of credentialed and/or classified staff that provide direct services to students on school campuses

⁵ California Public Employees’ Retirement System (CalPERS) rate in 2021–22 is final; whereas the California State Teachers’ Retirement System (CalSTRS) rate in 2021–22 is based on the most recent actuarial study, and is subject to board approval in June 2021. Rates in the following years are subject to change based on determination by the respective governing boards

⁶ Unemployment rate in 2021–22 is final, and the subsequent years’ rates are subject to actual experience of the pool and will be calculated in accordance with California Unemployment Insurance Code Section 823(b)(2)