

SCOE BIZ

Business Services

Bulletin No. 22-21 - Revised



5340 Skylane Boulevard
Santa Rosa, CA 95403-8246
(707) 524-2600 ■ www.scoe.org

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To: Chief Business Officials
From: Sarah Lampenfeld, Director, External Fiscal Services
Subject: May Revision Guidance for the 2022-23 Budget Adoption

The purpose of this letter is to provide 2022-23 Adopted Budget guidance, along with the release of *The Common Message*, which will follow in early June or as soon as its published.

As a result of significant increases in cash trends, since January’s Budget Proposal, revenues forecasts have been upgraded. This has generated historic revenues and the opportunity for the state to further support the Administration’s implementation of the California For All Kids Plan. Additionally, the May Revision prepares for increased economic uncertainty created by the war in Ukraine, global supply chain disruptions, and record rates of inflation by means of building reserves, prepaying billions in debt, and making supplemental deposits into the Rainy-Day fund.

The May Revision proposes to re-bench the Test 1 percentage of the Proposition 98 Funding Guarantee to approximately 38.3 percent to accommodate enrollment increases related to the expansion of transitional kindergarten.

The May Revision updates the 2022-23 cost-of-living adjustment (COLA) to 6.56%; the largest COLA in the history of LCFF. Moreover, the proposal “to help local educational agencies address ongoing fiscal pressures, staffing shortages, and other operational needs” includes \$2.1 billion ongoing to increase Local Control Funding Formula’s (LCFF’s) base funding. The combined increase to the base funding and the COLA of 6.56% results in an overall impact of approximately 10%. The Governor also recognizes the impacts of student and staff absences, created by the Delta and Omicron surges, by allowing local educational agencies (LEAs) to be funded at the greater of their current year average daily attendance (ADA) or their current year enrollment adjusted for pre-COVID-19 absence rates in fiscal year 2021-22 and correspondingly proposes to modify the three-year rolling average, proposed with the January Budget, to conform with this new adjustment in fiscal year 2021-22.

Other significant proposals in the May Revision include a \$8 billion in one-time Proposition 98 General Fund Discretionary funds, \$2,813 add-on to LCFF for Transitional Kindergarten ADA, an additional \$1.5 billion to January’s \$3 billion for one-time community schools grants, \$611.8 million ongoing to augment the state meal reimbursement rate for fiscal year 2022-23, \$403 million ongoing to Expanded Learning Opportunities Program (bringing the ongoing program to \$4.8 billion, and funding implementation four years ahead of schedule), and adjusts the

costs to expand eligibility for transitional kindergarten from \$639 million to \$614 million.

2021-22 and 2022-23 Cash Flow Projections

While the deferrals of fiscal year 2020-21 are in the past, it's still important to remember monthly updates of cash are imperative for the 2022-23 school year. Therefore, now is the time to [update your 2021-22 Cash Flow](#) with actuals through April 2022 and revise your estimates for May and June 2022. Accurate 2021-22 Cash Flow Projections provide reasonable June 30 cash balance estimates. The June 30 cash balance will be your 2022-23 July 1 beginning balance estimate.

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

The following should be considered when preparing the 2022-23 Adopted Budget, which is due to SCOE within 5 days of adoption or no later than July 1, 2022 (**whichever is sooner**):

Common Message (to follow)

Please read *The Common Message – May Revision 2022-2023* ([will follow this memo when available](#)).

Dartboard (attached)

Use the *SSC School District and Charter School Financial Projection Dartboard 2022-23 May Revision* ([attached](#)) for economic planning factors. Parameters, such as the COLA, PERS and STRS contribution rates have changed since the January budget proposal and preparation of 2021-22 Second Interim Reports.

LCFF Calculator

Given the Governor's May Revision proposals, FCMAT does not anticipate releasing an updated LCFF calculator [until after](#) the 2022-23 State Budget is enacted. Therefore, at this point, Districts and Charter have two options: [v23.1a](#) [or](#) [mv23.1b](#) – modeling version.

Please use one of the latest calculators available (either [v23.1a](#) or [mv23.1b](#)) and be sure to incorporate the May Revision's estimates for the 2022-23 Adopted Budget. See LCFF presentation attached to incorporate proposals into your LCFF calculator and/or to run different scenarios.

Both options were released on [4/18/2022](#) and include prepopulated data certified by the CDE for the first principal apportionment (2021-22 P-1), annual principal apportionment (2020-21 Annual), annual principal appointment revision 2 (2019-20 Annual R2) certified data. Both options will require updates to incorporate known P-2 data and the May Revision Budget Proposals.

What proposal should a District or Charter use for their 2022-23 Budget Adoption?

The short answer is: It depends! Each LEA is encouraged to run different scenarios based on the Governor's budget proposals then assess their LEA's budget risk and long-term forecast to determine which situation is best. Remember, May Revisions are still proposals and the final Budget deadline is June 15th. Through the Budget Committee and Subcommittee hearings, in addition to the Assembly and Senate's recommendations, the final Budget will be negotiated with the Governor.

Proposals that affect LCFF Calculations:

- ✚ COLA – it's recommended each LEA use the COLAs assumptions the SSC's Dartboard.
- ✚ \$2.1 billion increase to Local Control Funding Formula's (LCFF's) base funding – Based on both SSC and Capitol Advisor's May Revise presentations, the Senate and Assembly agree with the Governor that the base funding should be increased, in fact, the Senate and Assembly both propose higher increases than the Governor. If an LEA chooses to use the higher funding, please consider the impacts to the LEA's budget for if the increase does not materialize.
 - To increase the base: see example on LCFF presentation here. This will increase the base grants to match the May Revise Dartboard.
 - Note: These base grants estimates are SSC's calculations and NOT DOF's calculations.
- ✚ Three Prior-Year Average ADA Funding – The Governor's May Revision continues to propose a 3-year average for School Districts. Per SSC and Capitol Advisor's this option has a "strong probably" of being included in the final budget. Again, please run scenarios to determine the fiscal impact if the 3-year average is not included in the State Budget.
 - The modeling LCFF calculator includes this criterion for School Districts to use in their budget calculations.
- ✚ COVID-19 ADA Relief for 2021-22 – Proposed for School Districts, Classroom-based charter schools, and COEs. It is a comparison of attendance yields (ADA-to-enrollment percentage). This would allow the pre COVID-19 attendance ratio (2019-20's rate) to be applied to 2021-22's enrollment (CBEDS Fall 1 Enrollment). Per Capitol Advisors, this proposal **does not** have strong support; therefore, has a large margin of risk if included in projections given the opposition. This would modify the 3-year average ADA, if approved.
 - The current LCFF calculators (regular and modeling) do not include this option therefore, a hand calculation would be required. **This option is not recommend given its risk and the probability of error in calculating.**
- ✚ Declining Enrollment Protection for Charter Schools – This proposal is for Charter Schools in fiscal year (FY) 2021-22 only. This proposal would allow Charter Schools to be funding on the greater of Current-year ADA or Prior-year ADA for FY 2021-22. Per SSC, this language is not present in any active bills in the Senate Assembly.
 - The current LCFF calculators (regular and modeling) do not include this option therefore, hand calculation would be required. **This option is not recommend given its risk and the probability of error in calculating.**

Based on the proposals, SCOE continues to recommend fiscal prudence. LEAs are encouraged run scenarios, discuss scenarios and risk with cabinet, and have a contingency plan. Also, Districts subject to the reserve cap, should consider impacts of the proposals to reserve levels.

Lastly, SCOE recommends sending LCFF calculators to your Fiscal Advisor before finalizing projections for the 2022-23 Adopted Budget.

Discretionary Funding

The May Revision include a \$8 billion in one-time Proposition 98 General Fund Discretionary funds, which is approximately \$1,500 per ADA (per LOA). LEAs again should assess the risk to their LEA's budget if these funds are not included in the final State Budget. SSC and Capitol Advisors felt these dollars had potential risk of not materializing in the final budget. "The Legislature may want to target this money rather than provide to all LEAs and keep fully discretionary." per Capitol Advisors.

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 2022-23 budget, prescribed information must be provided for public review and comment.

Local Reserve Cap

The Governor's fiscal year 2022-23 budget proposal includes deposits into the education rainy day fund for 2020-21 through 2022-23 since all four conditions of Proposition 2 would be met. The proposed deposits would trigger a 10% cap on district reserves for the 2022-23 fiscal year. Basic aid and districts with fewer than 2,501 ADA are exempt from the reserve cap. **If the reserve cap is applicable to your school district, please plan ahead to ensure compliance to the law.**

STRS and PERS contribution rates:

Please note that PERS contribution rates have changed since the January proposed budget and preparation of 2021-22 Second Interim Reports.

Employer Contribution Rates – May Revise 2022	2022-23	2023-24	2024-25	2025-26
STRS – Actual and projected rates	19.10%	19.10%	19.10%	19.10%
PERS – Actual and projected rates	25.37%	25.20%	24.60%	23.70%

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.
 - Basic Aid/Excess Tax School Districts are subject to the Local Control and Accountability Plan (LCAP) and Supplemental and Concentration Grant regulations under LCFF.
- ✚ **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 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.
 - ✚ **Local Control and Accountability Plan (LCAP)**
The 2022-23 LCAP includes new additions to the Action Tables (formally known as the Expenditure Tables) in addition to the new distinction between increased and/or improved services for unduplicated students.
Below is a recap for LEA's to remember/consider during LCAP development:

- New distinction between “increased” versus “improved” services for unduplicated pupils, which allows LEAs to meet the increased or improved services requirement quantitatively (at a cost) or qualitatively (at no cost).
 - **ONLY LCFF funds count towards meeting Minimum Proportionality Percentage (MPP)**
 - The increased and/or improved services requirement can be met **quantitatively and/or qualitatively. It is NOT a spending requirement.**
 - To increase services means to grow services in quantity (at a cost)
 - To improve services means to grow services in quality (at no cost)
- All LEAs must complete the 2021-22 Action Tables for the Annual Update
- New LCFF Carryover Table
- **Focus on LCFF funds (Qualification for contributing requirement)**
 - A calculation of the difference between the total budgeted expenditures of planned actions and the total estimated actual expenditures for those actions
 - A determination of the percentage point difference, if any, between the total planned qualitative improvements based on the planned specific actions reported in the LCAP and the total actual qualitative improvements for those actions reported in the LCAP, as applicable
- Updated Increased and Improved Services Section

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 2022-23 May Revision

This version of School Services of California Inc. (SSC) Financial Projection Dartboard is based on the Governor's 2022-23 May Revision. We have updated the cost-of-living adjustment (COLA), Consumer Price Index (CPI), and other planning factors. 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	2021-22	2022-23	2023-24	2024-25	2025-26
Department of Finance Statutory COLA ¹	1.70%	6.56%	5.38%	4.02%	3.72%
Planning COLA	5.07% ²	6.56%	5.38%	4.02%	3.72%

LCFF GRADE SPAN FACTORS FOR 2022-23				
Entitlement Factors per ADA*	K-3	4-6	7-8	9-12
2021-22 Base Grants	\$8,093	\$8,215	\$8,458	\$9,802
Statutory COLA of 6.56%	\$531	\$539	\$555	\$643
Additional LCFF Investment of \$2.1 billion ³	\$266	\$270	\$278	\$322
2022-23 Base Grants	\$8,890	\$9,024	\$9,291	\$10,767
Grade Span Adjustment Factors	10.4%	–	–	2.6%
Grade Span Adjustment Amounts	\$925	–	–	\$280
2022-23 Adjusted Base Grants ⁴	\$9,815	\$9,024	\$9,291	\$11,047

*Average daily attendance (ADA)

OTHER PLANNING FACTORS						
Factors		2021-22	2022-23	2023-24	2024-25	2025-26
California CPI		6.55%	6.11%	3.14%	1.97%	2.31%
California Lottery	Unrestricted per ADA	\$163	\$163	\$163	\$163	\$163
	Restricted per ADA	\$65	\$65	\$65	\$65	\$65
Mandate Block Grant (District)	Grades K-8 per ADA	\$32.79	\$34.94	\$36.82	\$38.30	\$39.72
	Grades 9-12 per ADA	\$63.17	\$67.31	\$70.93	\$73.78	\$76.52
Mandate Block Grant (Charter)	Grades K-8 per ADA	\$17.21	\$18.34	\$19.33	\$20.11	\$20.86
	Grades 9-12 per ADA	\$47.84	\$50.98	\$53.72	\$55.88	\$57.96
Interest Rate for Ten-Year Treasuries		2.17%	3.71%	3.25%	3.08%	3.10%
CalSTRS Employer Rate ⁵		16.92%	19.10%	19.10%	19.10%	19.10%
CalPERS Employer Rate ⁵		22.91%	25.37%	25.20%	24.60%	23.70%
Unemployment Insurance Rate ⁶		0.50%	0.50%	0.20%	0.20%	0.20%
Minimum Wage ⁷		\$15.00	\$15.50	\$16.00	\$16.40	\$16.70

STATE MINIMUM RESERVE REQUIREMENTS	
Reserve Requirement	District ADA Range
The greater of 5% or \$76,000	0 to 300
The greater of 4% or \$76,000	301 to 1,000
3%	1,001 to 30,000
2%	30,001 to 400,000
1%	400,001 and higher

¹Applies to Special Education, Child Nutrition, Foster Youth, Adults in Correctional Facilities Program, 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%.

³Amounts are estimated by SSC and are subject to change.

⁴Additional funding is provided for students who are designated as eligible for free and reduced-price meals, foster youth, English language learners. A 20% augmentation is provided for each eligible student with an additional 65% for each eligible student beyond the 55% identification rate threshold.

⁵California State Teachers' Retirement System (CalSTRS) and California Public Employees' Retirement System (CalPERS) rates in 2021-22 were brought down by a prior year \$2.3 billion payment from the state of California. Rates in the following years are subject to change based on determination by the respective governing boards.

⁶Unemployment rate in 2021-22 and 2022-23 are final based on the 2021 Enacted State Budget, 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)

⁷Minimum wage increases and are effective January 1 of the respective year.