San Bernardino County Superintendent of Schools
Transforming lives through education

Ted Alejandre
County Superintendent

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TO: Chief Business Officials and Directors of Fiscal Services
San Bernardino County School Districts

Subject: Common Message 2022-23 May Revision

Since May 2008, county office chief business officials have crafted common messages to give guidance to school districts on assumptions for budget and interim reports. The goal of the Business and Administration Steering Committee (BASC) is to provide county office chief business officials with a consistent message that can be used in providing guidance to school districts.

This edition of the Common Message is intended to provide information and guidance to assist LEAs in developing 2022-23 adopted budgets and their multiyear projections (MYP). It contains information related to the Governor's May Revision Budget Proposal. COEs and LEAs should note this version of the Common Message primarily addresses changes from the Governor's January Budget Proposal as well as items considered essential for LEAs to include in their budgets and MYPs.

LEAs should note that both the Senate and the Assembly have released their own budget proposals and that the final budget will likely contain a mix of the May Revise and these proposals.

If you have any questions, please contact your Business Services Advisor at (909) 386-9676.

Sincerely,

Ted Alejandre
County Superintendent of Schools

Thomas G. Cassida, Jr.
Director, Business Advisory Services

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The Common Message

2022-23 May Revision

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Table of Contents

Sources *4*

Key Guidance Based on Governor's May Revision Proposal 5

Local Control Funding Formula 6

Planning Factors for 2022-23 and MYPs 7

Local Control Accountability Plan 7

Reserves / Reserve Cap 8

Special Education 8

Summary *9*

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California State Teachers' Retirement System
California State Board of Education
California School Boards Association
California School Information Services
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Key Guidance Based on Governor's May Revision Proposal

On May 13, 2022, Gov. Gavin Newsom presented the May revision to the proposed state budget. The proposal includes a 6.56% statutory cost-of-living adjustment (COLA) to the Local Control Funding Formula (LCFF), as well as a 6.56% COLA to special education, child nutrition, Adult Education Block Grant, Mandate Block Grant, foster youth programs, American Indian Education Centers, and the American Indian Early Childhood Education Program.

The Governor maintains funding for all items in the January budget proposal and makes the following notable changes with the May Revision:

- $8 billion one-time discretionary funding
    - Estimated at $1,500 per **reported** 2021-22 P-2 ADA
    - To be used for any purpose as determined by the governing board
    - Intent is to prioritize the use for maintaining staffing levels, student learning, operational costs, supporting mental health and wellness of students and staff
- $3.3 billion in ongoing Prop. 98 funds to mitigate declining enrollment
    - Proposes current year adjustment to utilize the greater of 2021-22 ADA or the 2019-20 attendance rate applied to 2021-22 enrollment for all classroom-based LEAs
    - Maintains amendment to the LCFF calculation to allow school districts to utilize the greater of current year, prior year, or the average of the most recent three prior years' ADA
- $2.1 billion in ongoing Prop. 98 funds to increase LCFF base funding
- Additional $403 million, for a total of $4.8 billion ongoing for the Expanded Learning Opportunities Program (ELO-P)
    - Full funding proposed in 2022-23
    - $2,500 per classroom-based prior year P-2 ADA in grades K-6 multiplied by the prior year unduplicated pupil percentage (UPP)
    - Offering and access requirements begin in 2023-24
- $614 million (Prop. 98 "rebenched") for transitional kindergarten (TK) expansion
- $611 million to maintain meal reimbursement rates at the federal Seamless Summer Option levels
- $191 million for early childhood education
- Additional $1.8 billion one-time general fund, for a total of $4 billion to support the School Facilities Program
- $1.8 billion (one-time Prop. 98) for deferred maintenance
- $1.5 billion (one-time Prop. 98) for community schools
- California State Preschool Program (CSPP) proposed increase of $34.6 million to fund the state preschool adjustment factors for students with disabilities and dual language learners

Local Control Funding Formula

The May Revision increases the COLA to 6.56%, proposes a transitional kindergarten (TK) add-on to the LCFF, and proposes a $2.1 billion (approximately 3.3%) boost to LCFF base rates. As a result, total LCFF funding increases to $70.5 billion inclusive of the additional TK students that become eligible for LCFF funding in 2022-23.

The TK add-on is proposed with a funding rate of $2,813 per unit of average daily attendance (ADA) and will be subject to annual COLA increases. As with other measures of ADA for school districts, ADA for the TK add-on will be funded on the higher of current or prior year. The funding is conditioned on the school district or charter offering transitional kindergarten in the year it receives the funding.

Because of the decline in student enrollment, the budget proposes to permanently alter the LCFF relative to the determination of funded ADA. As proposed, school districts will be funded on the greater of current year, prior year, or the average of the most recent three prior years' ADA. Charter schools and county offices of education are not afforded the prior year guarantee and are funded on current year ADA.

The return to in-person instruction has been interrupted by surges in COVID-19 resulting in a much lower attendance rate for many districts in 2021-22. The May Revision proposes some relief to this additional decline to ADA by adding a proxy measure for 2021-22 ADA equal to 2021-22 enrollment multiplied by the district's 2019-20 attendance rate. The results of this measure will determine the "actual ADA" to be used for LCFF purposes for the 2021-22 year – which then becomes the ADA used in the calculation of the prior three years' average ADA.

The May Revision trailer bill language details proposed amendments to several sections of the Education Code to address the fiscal needs of necessary small schools (NSS): Increases to the NSS allowances, implementation of the average of the three most recent prior fiscal years' full-time teachers, and increases to grade span adjustments.

The administration and Legislature are both proposing to boost the base rates for LCFF, although the Legislature is proposing a larger increase than the governor. We encourage all LEAs to simulate the May Revision using the modeling version of FCMAT's LCFF Calculator and begin to plan for the resulting increase in funding. LEAs that are prepared for both best- and worst-case budgets are better able to adapt for economic uncertainty.

Planning Factors for 2022-23 and MYPs

Key planning factors for LEAs to incorporate into their 2022-23 budget and multiyear projections are listed below and are based on the latest information available.

Planning Factor	2022-23	2023-24	2024-25
Cost of Living Adjustment (COLA)			
LCFF COLA	6.56%	5.38%	4.02%
Special Education COLA	6.56%	5.38%	4.02%
Employer Benefit Rates			
CalSTRS	19.10%	19.10%	19.10%
CalPERS-Schools	25.37%	25.20%	24.60%
State Unemployment Insurance	0.50%	0.50%	0.50%
Lottery			
Unrestricted per ADA	$163	$163	$163
Prop. 20 per ADA	$65	$65	$65
Mandated Block Grant			
Districts			
K-8 per ADA	$34.94	$36.82	$38.30
9-12 per ADA	$67.31	$70.93	$73.78
Charters			
K-8 per ADA	$18.34	$19.33	$20.11
9-12 per ADA	$50.98	$53.72	$55.88

Local Control Accountability Plan

The changes to the LCAP template adopted in November 2021 make close coordination between an LEA's fiscal and programmatic leadership more critical than ever. All members of the leadership team need to be actively engaged in LCAP development to ensure accurate alignment of the budget, the LCAP, and non-LCAP planning processes. The requirements to calculate and implement carryover for increased and improved services make it imperative that the expenditure tables related to the Annual Update and the Budget/LCAP year planned Goals and Actions are as accurate as possible. All constituents should carefully consider the implications of any actual (Annual Update) and potential (LCAP/Budget) carryover requirements. Given the unprecedented one-time financial resources coupled with uncertainty about the sustainability of initiatives funded with these resources, LEAs may need to plan for carryover, but the rationale for such a plan should be clearly communicated to all educational partners.

Reserves / Reserve Cap

Existing law imposes a 10% cap on the amount local school districts can maintain in their reserves in fiscal years immediately succeeding those in which the education rainy day fund (Public School System Stabilization Account) balance is at least 3% of TK-12 Prop. 98 funding. This condition was met with the 2021-22 deposit amount, triggering the local reserve cap for the 2022-23 fiscal year.

Basic aid districts and small school districts with fewer than 2,501 ADA are exempt from the requirement.

Affected local school districts will need to comply with the law (Education Code Section 42127.01(a)) by taking action by June 30, 2022, with the adoption of their budgets, as well as anticipate that the cap on their reserves will be in place for the foreseeable future.

Districts should estimate whether their budgeted 2022-23 ending assigned and unassigned reserves, in the General Fund 01 and Special Reserve Fund 17 combined, are no more than 10% of the total general fund expenditures, transfers out and other uses. With the proposed new Discretionary Block Grant and other one-time resources to support the implementation of ongoing priorities, districts will need to take a critical look at projected ending balances to ensure they have committed funds for the purposes intended.

If a district is not exempt from the reserve cap, a district has several options available to ensure compliance:

- Commit reserves rather than leaving them in assigned or unassigned – a commitment requires board action through a resolution adopted before the end of the fiscal year
- Transfer reserves to funds other than Fund 17
- Contribute to restricted resources within the general fund
- If a formal salary offer has been negotiated, but negotiations remain unsettled, consider budgeting the cost of the formal salary offer

Districts that project reserves in excess of 10% are encouraged to work with their county offices to explore the available options to meet the reserve cap as part of the budget adoption process.

This FCMAT Fiscal Alert provides additional information regarding managing local reserves under the cap.

Special Education

The 2022-23 budget proposals significantly build on special education funding augmentations and other changes provided over the past three years.

The Special Education Base Rate is first increased by the estimated COLA of 6.56%, and then augmented by $500 million, resulting in a 2022-23 base rate of $820 (currently $715) per ADA.

SELPAs with a base rate greater than $820 per ADA in 2021-22 will continue to be funded at their current rate. Allocations will be calculated at the LEA level rather than the SELPA level, but funding will continue to flow through SELPAs. Each LEA's allocation will be based on ADA reported for the current year, most recent prior year, or second most recent prior year (whichever is greater), multiplied by the base rate of $820/ADA. SELPA base grant allocations will be the sum of all member LEAs' individual allocations. Funding exhibits for each LEA will be provided by the CDE, and SELPAs must report the amount of funding generated by each member LEA no later than 30 days after receiving their apportionment.

Educationally related mental health services funding will be allocated directly to LEAs based on current year second principal apportionment ADA for state funds, and prior year second principal apportionment ADA for federal funds, as the allowable use of these funds was changed in 2020-21 to include any behavioral or mental health service. The two existing special education extraordinary cost pools will be consolidated into a single cost pool to simplify the current funding formula. Finally, a special education addendum to the LCAP will be developed and implemented in 2025-26 to promote program cohesion by linking special education and general education planning and to provide parents of students with disabilities a defined role in the LCAP development process.

Summary

This edition of the Common Message serves to provide data and guidance to LEAs for fiscal planning and the development of their 2022-23 Adopted Budget and multiyear projection. The information provided for fiscal year 2022-23 and beyond includes the latest known proposals and projections to assist with multiyear planning. As each LEA has unique funding and program attributes and needs, it remains essential that LEAs continuously assess their individual situations, work closely with their county offices of education, and plan accordingly to maintain fiscal solvency and educational program integrity.