



March 6, 2009

**ORANGE COUNTY  
DEPARTMENT  
OF EDUCATION**

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JOHN L. NELSON  
Associate Superintendent

**ORANGE COUNTY  
BOARD OF EDUCATION**

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To: Assistant Superintendent, Business Services  
Assistant Superintendents, Human Resources  
Assistant Superintendents, Instructional Services  
Directors, Business Services  
Directors, Special Education  
ROC/Ps

From: Wendy Benkert, Ed.D., Assistant Superintendent  
Business Services

Subject: **REVISIONS TO THE SECOND INTERIM REPORT BUDGET ADVISORY  
UPDATE**

As a result of additional information being made available to the 17 month enacted Budget, we are making a number of revisions and clarification to our original February 27, 2009 District Advisory. Below is a list of topics that have been revised from our original advisory letter:

- PERS (page 3) – updated the investment loss from 22% to 32%.
- Prohibited prior-year ending fund balances sweeps (page 4) – added Adult Education, Child Development, Deferred Maintenance, and any funding sources for capital outlay, bond funds, and federal funds.
- K3 CSR (page 6) – modified table to extend precision to 100ths digits instead of 10ths. (ie. 21.45 instead of 21.5)
- Instructional Materials (page 8) – added a language regarding continued requirement for sufficiency of Instructional Materials.
- Deferred Maintenance (page 8) – added clarifying language regarding the need for the 2007-08 deferred maintenance local match.
- Charter Schools (page 9) – revised the table for funding rates.
- Propositions (page 11) – revised proposition descriptions.
- Federal Stimulus (page 11) – corrected the amount of Title 1 from \$1.5B to \$1.1B.

Attached is the revised budget advisory updated with the changes described above. If you have any questions or concerns regarding this information, please contact me at (714) 966-4229 or Darren Dang at (714) 966-4176.

cc: Superintendents  
Dari Barzel, Moodys  
Jean Buckley, Tamalpais Advisors Inc.



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To: Assistant Superintendents, Business Services  
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Directors, Business Services  
Directors, Special Education  
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From: Wendy Benkert, Ed.D., Assistant Superintendent  
Business Services

Subject: **SECOND INTERIM REPORT BUDGET ADVISORY UPDATE**

After months of delays, on Friday, February 20, 2009, Governor Schwarzenegger signed a 17 month budget that runs through June of 2010. The final enacted Budget is devastating to schools, reducing education spending by \$8.6 billion over the next 17 months. To address the \$41.6 Billion Budget deficit, State lawmakers reduced expenditures by \$14.9 billion, added \$12.5 billion in new taxes to the General Fund, borrowed \$5.4 billion and offset the difference with \$7.9 billion of funds from the federal stimulus package. Although the details of the Budget have changed from the Governor's January Budget proposal, the magnitude of the cuts to education, unfortunately, have not been reduced.

The following are highlights of California's budget as it pertains to K-12 education, along with local property tax receipts and interest rate projections from the Orange County Auditor-Controller's and Treasurer's offices. This information and assumptions are being provided to assist you in the preparation of the 2008-09 Second Interim Report, the associated multi-year projections, as well as the development of your 2009-10 Budget. Please note that Attachment A is included for your reference and use in identifying the District's certification and the dollar amount of potential reductions for 2010-11.

## REVENUE LIMITS:

### COLA

In the current year, the 0.68% cost of living adjustment (COLA) is rescinded and the K-12 revenue limit is further reduced by another \$944 million (approximately \$160 per ADA or -2.63%). This equates to a deficit factor of **7.844%** for 2008-09. For County Offices of Education, this equates to a deficit factor of 7.839% for 2008-09. In addition, categorical funding is also reduced by \$944 million. The attached schedule B, projects the 2008-09 decrease in revenue limit funding per ADA for Orange County districts.

<b>2008-09</b>		
<b>District</b>	<b>Increase by Statutory COLA of 5.66%</b>	<b>Funding Decrease of (2.628%) Deficit Factor of .92156<sup>1</sup></b>
Elementary	\$315	(\$146)
High School	\$379	(\$176)
Unified	\$329	(\$153)

For 2009-10, the revenue limit funding will be reduced by \$268 million or -0.969%, resulting in a cumulative deficit factor of **13.094%** over the next 17 months. For County Offices, the cumulative deficit factor is 13.360%. Please note that the actual decrease in funding will depend on where your district's base revenue limit is in comparison to the statewide average. The attached schedule C, illustrates the projected 2009-10 revenue limit funding per average daily attendance (ADA) for Orange County districts.

<b>2009-10</b>		
<b>District</b>	<b>Increase by Statutory COLA of 5.02%</b>	<b>Funding Decrease of (0.969%) Deficit Factor of .86906<sup>2</sup></b>
Elementary	\$295	(\$53)
High School	\$355	(\$63)
Unified	\$309	(\$55)

<b>2010-11</b>		
<b>District</b>	<b>Increase by Statutory COLA of 0.70%</b>	<b>Funding Increase of 0.70% Deficit factor of .86906<sup>3</sup></b>
Elementary	\$43	\$43
High School	\$52	\$52
Unified	\$45	\$45

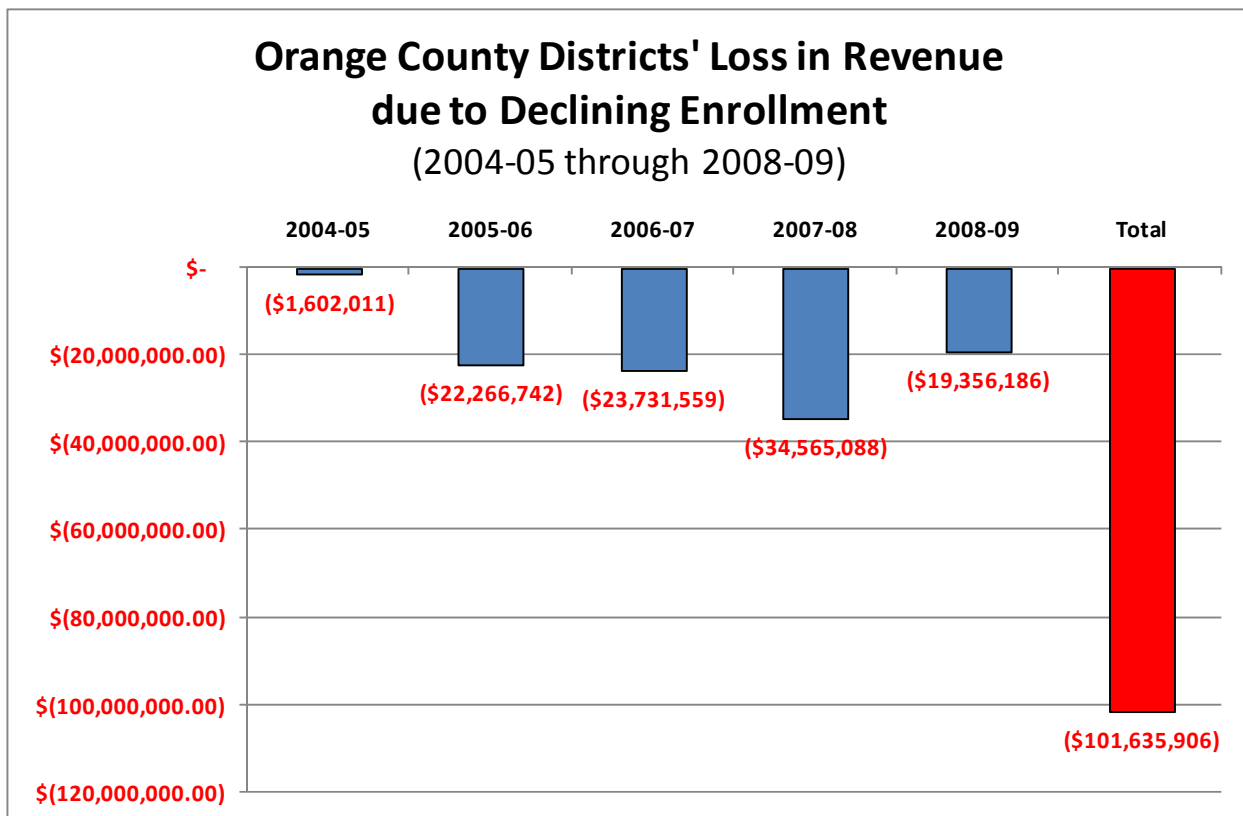
<sup>1</sup> The 2008-09 deficit factor of .92156 is calculated as follows:  $1 - 0.07844 = 0.92156$

<sup>2</sup> The 2009-10 deficit factor of .86906 is calculated as follows:  $1 - 0.13094 = 0.86906$

<sup>3</sup> The 2010-11 deficit factor is projected to remain the same as that of 2009-10

The School Services of California (SSC) Dartboard is attached as Attachment D for your reference. We recommend that districts use the SSC Dartboard for developing their 2008-09 Second Interim Reports, associated multi-year projections, and 2009-10 Adopted Budgets.

There continues to be no change proposed to the current funding formula for declining enrollment districts, whereby the funding is based on the greater of the ADA for either the current or prior fiscal year. In the current fiscal year, preliminary enrollment figures indicate that twelve out of twenty-seven K-12 school districts in Orange County are experiencing declines in student enrollment. However, the county, as a whole, will experience a slight increase in enrollment for the first time since 2003-04. Over the previous five years, the enrollment declines have resulted in an estimated loss in revenue countywide of \$101.6 million. The following graph illustrates the annual loss in revenue over the previous five years as a result of declines in student enrollment countywide.



#### **PERS Reduction**

The Public Employees Retirement System (PERS) school employer contribution rate is currently estimated at 9.40% for 2009-10. Thus the PERS revenue limit reduction rate will be 3.62% (13.020% - 9.40%). The PERS Board meets annually in May to set the employer contribution rate for the subsequent year. Once the rate has been set, our office will update districts accordingly. The PERS buyout remains for 2009-10 and is projected to be sufficient to buyout approximately 15.09% of the 2009-10 PERS Reduction. Please be aware that the recent investment losses of (32%), as of March 4 2009, may translate into future increases in employer rate contributions. There has been no indication by PERS officials to increase the rate for 2009-10. However, if investment losses remain at current levels, the PERS contribution rate could be increased for 2010-11.

## MAJOR CATEGORICAL PROGRAMS:

### **2007/08 Ending Fund Balance Flexibility**

The Budget also provides flexibility provisions for the use of carry-over balances in the current fiscal year as well as in 2009-10. Eligible funds include state categorical programs in the General Fund and Cafeteria Fund. Please use caution and consider federal regulations when sweeping funds from the Cafeteria Fund. Districts should use object 8997 to record transfer of prior year (2007-08) balances. Please note that although these transfers must be Board approved, a public hearing is not required. Categorical ending fund balance sweeps are prohibited for the following programs:

- Adult Education
- California High School Exit Exam (CAHSEE) Intensive Intervention
- Child Development
- Deferred Maintenance
- Economic Impact Aid
- Home to School Transportation
- Instructional Materials
- Quality Education Investment Act (QEIA)
- Special Education
- Targeted Instructional Improvement Grant (TIIG)
- Any funding sources for capital outlay, bond funds, or federal funds

### **Categorical Flexibility**

The enacted Budget reduces categorical funding by approximately 15.38% in 2008-09 and 4.46% in 2009-10 for most programs with tiered flexibility. In order to take advantage of the flexibility provisions, Section 42605 was added to the Education Code requiring that the governing board, at a regularly scheduled open public hearing, take testimony from the public, discuss, and approve or disapprove the proposed use of funding flexibility. Districts should use object 8998 for categorical flexibility transfers.

Categorical cuts and flexibility have been broken down into three tiers:

**Tier I** - These programs will not be reduced and no programmatic flexibility is granted, however; there is a relaxation of K-3 Class-Size Reduction (CSR) penalties, as discussed on the following page:

After School Education and Safety (Prop. 49)	K-3 Class Size Reduction
Child Development	Quality Education Investment Act (QEIA)
Child Nutrition	Special Education
Economic Impact Aid (EIA)	State Lottery (including Proposition 20)
Home to School Transportation	Tobacco Use Prevention Education (TUPE)

**Tier II** - These programs will be cut approximately 15.38% in the current year and 4.46% in 2009-10, but no programmatic flexibility is granted for these programs and current requirements remain in place:

Adults in Correctional Facilities	Foster Youth Educational Services
Agricultural Vocational Education	K-12 High Speed Network
Apprenticeship Programs	Partnership Academies
Charter School Facility Grants	Pupil Testing
County Office Oversight (FCMAT)	Year-Round Education
English Language Acquisition Program	

**Tier III** - All remaining categorical programs will be cut approximately 15.38% in the current year and 4.46% in 2009-10. Tier III programs are granted broad flexibility, which is available through 2012-13. **Please note that Districts are required to hold a public hearing on the transfer of funds from categorical programs in Tier III.**

Administrator Training Program (AB 430)	International Baccalaureate
Adult Education	National Board Certification
Alternative Credentialing	Peer Assistance and Review
Arts and Music Block Grant	Physical Education Teacher
Bilingual Teacher Training	Professional Development Block Grant
California High School Exit Exam (CAHSEE) Intervention	Pupil Retention Block Grant
California School Age Families Educational Program (CalSAFE)	Readers for the Blind
Center for Civic Education	Recruitment Grants
Certified Staff Mentoring Program	Regional Occupational Centers/Programs
Charter Schools Categorical Block Grant	SB 472 Professional Development
Child Oral Health Assessments	School and Library Improvement
Class Size Reduction – 9 <sup>th</sup> Grade (Morgan-Hart)	School Safety Competitive Grant
Community Based English Tutoring (CBET)	School Safety Consolidated
Community Day Schools	Specialized Secondary Programs
Counselors, Grades 7-12	Student Leadership
Deferred Maintenance	Supplemental Hourly Programs
Educational Technology	Targeted Instructional Improvement Block Grant
Gifted and Talented Education (GATE)	Teacher Credentialing Block Grant
High Priority Schools and II/USP*	Teacher Dismissal Apportionments
Indian Education Centers	<i>Williams Audits</i>
Instructional Materials Fund	

\* Eliminated in 2009-10

Please refer to Attachment E for a detailed list of Tier 1, 2, and 3 programs. This list is based on information provided by SSC, the Superintendent of Public Instruction (in the letter dated February 25, 2009), and Association of California School Administrators (ACSA).

### **K-3 Class Size Reduction Program – Graduated Penalties**

Although the Governor’s proposal to grant unlimited flexibility to K-3 CSR was rejected, a reduction to the class size penalties was approved. The provision allows school districts to exceed the current class size thresholds and still retain K-3 CSR funding, albeit at a lower level. However, school districts should be aware that the penalty has two parts. The first is that a penalty will be imposed based on a graduated scale for class sizes that average more than 20.44 students (as seen in the table below). The second part of the penalty is that K-3 CSR incentive funding on a per-classroom basis is limited to 20.44 students. In other words, a classroom with 25 students would receive 70% of the funding for 20 students, not 25 students. These flexibility provisions are made available for the current year through 2011-12.

<b>Class Size</b>	<b>2009-10 Budget</b>
Up to 20.44	No penalty
20.45 to 21.44	5% penalty
21.45 to 22.44	10% penalty
22.45 to 22.94	15% penalty
22.95 to 24.94	20% penalty
24.95 and over	30% penalty

Current law states that a school district may establish a program to reduce class size in the following order: grades 1, followed by grades 2, then kindergarten and / or grades 3. **Please note that there will be no restrictions based on priorities for implementation.** There is no requirement that one grade level needs to be higher or lower than another. It is also important to note that there is no change with respect to Quality Education Investment Act (QEIA) schools. All QEIA grant recipients must continue to meet the 20:1 requirement for K-3 CSR to meet the full implementation requirement.

### **Supplemental/Hourly Programs**

Three of the hourly programs continue to be under-funded and the following deficits are projected in 2008-09 and 2009-10. In addition, Supplemental Hourly Programs are subject to a 15.38% mid-year reduction in 2008-09 and a 4.46% reduction in 2009-10.

<b>Program</b>	<b>2008-09</b>			<b>2009-10</b>	
	<b>Estimated Deficit Prior to Cut (based on 2007-08 Annual)</b>	<b>Estimated Deficit After the 15.38% Cut</b>	<b>Estimated Hourly Rate with all Reductions Applied</b>	<b>Estimated Deficit After Additional 4.46% Cut</b>	<b>Estimated Hourly Rate with All Reductions Applied</b>
Core Academic (capped)	10.25%	25.63%	\$3.03	30.09%	\$2.85
Grade 2-6 At Risk (capped)	25.16%	40.54%	\$2.43	45.00%	\$2.24
Grade 2-9 Retained Recommended for Retention uncapped)	28.60%	43.98%	\$2.29	48.44%	\$2.10
Grade 7-12 CAHSEE (uncapped)	0%	15.38%	\$3.45	19.84%	\$3.27

### **Adult Education**

Adult Education will be reduced by 15.38% in 2008-09 and 4.46% in 2009-10. However, funding for 2.5% growth is included. For those programs that did not fully utilize their Adult ADA caps in 2006-07 and 2007-08, their 2008-09 cap will be reduced by half of the amounts not used. Please also note that because Adult Education is not within the General Fund, carry-over balances as of June 30, 2008 may not be swept although Adult Education is included in the Tier III flexibility.

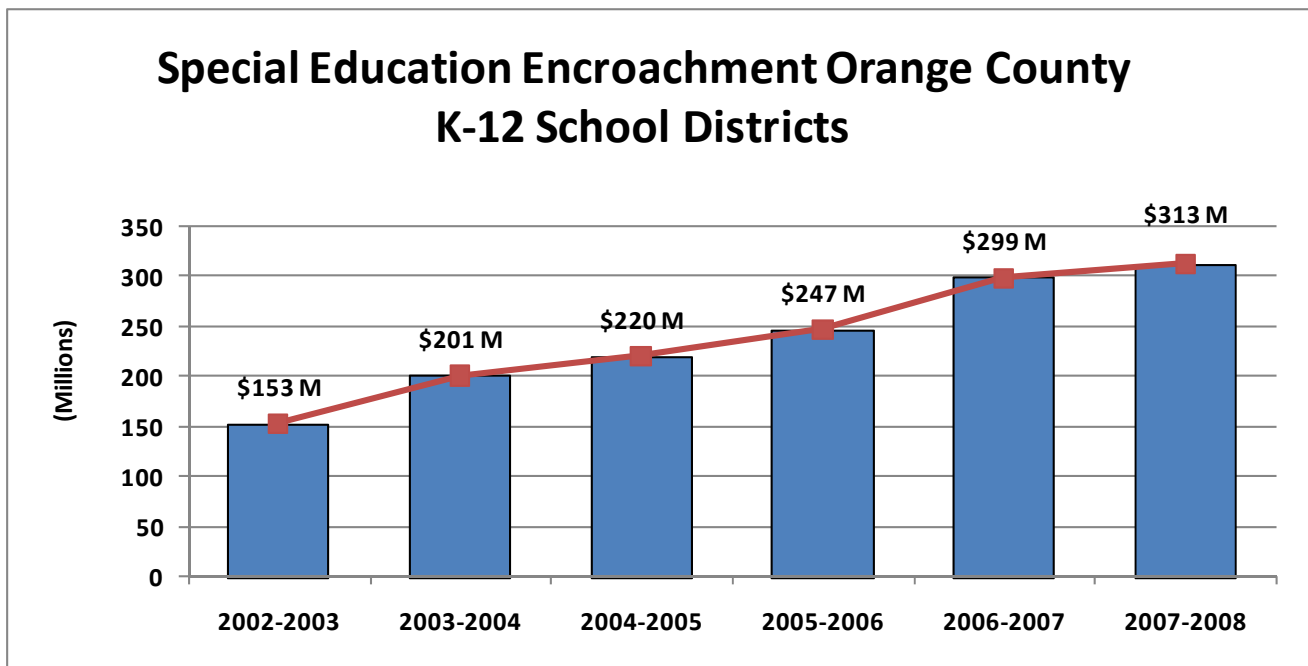
### **Regional Occupational Centers / Programs (ROC/Ps)**

For the current year, ROC/Ps funding will be reduced by 15.38% in addition to a reduction of 0.63% due to statewide ADA decline in 11th and 12th grade. Funding is further reduced by 4.46% in 2009-10.

### **Special Education**

Special Education Funding continues to be under funded statewide and the enacted Budget does not include COLA for special education, nor does it contain reductions. In addition, the enacted Budget does not include the proposed \$65 million for the Behavioral Intervention Plan (BIP) mandated cost settlement. It is our understanding that the Legislature may consider funding for BIP during their Spring subcommittee meeting, however, districts should not include funding for BIP at this time.

Special Education funding continues to encroach on the General Fund. Without increases in revenues for special education, the escalating costs associated with special education continue to have a significant impact on the unrestricted general fund for Orange County districts. The following graph shows the increase in special education encroachment for Orange County districts over the previous six fiscal years.





### **Instructional Materials**

The Instructional Materials public hearing requirement to ensure sufficient textbooks is suspended for 2008-09 as well as in 2009-10. The textbook adoption requirement is also suspended until July 1, 2010. However, if a school district had adopted textbooks at a public hearing in the current year, then the District is required to adhere to that textbook adoption schedule. Please note that Districts must continue to have sufficient instructional materials as defined by Education Code Section 60119.

Although, Instructional Materials funding falls into Tier III categorical flexibility, transfers of prior year carry-over ending fund balance is prohibited.

### **Williams Lawsuit Settlement**

County Superintendents are still required to continue to visit school sites at least once a year to determine sufficiency of instructional materials pursuant to Education Code 1240. For the purposes of Section 1240, for the 2008–09 and 2009–10 fiscal years, sufficient textbooks or instructional materials include standards-aligned textbooks or instructional materials, or both, that were adopted prior to July 1, 2008, by the state board or local educational agency pursuant to statute, unless those local educational agencies purchased or arranged to purchase textbooks or instructional materials adopted by the state board after that date. It is the intent of the Legislature that each local educational agency provide each pupil with the same state-adopted, standards-aligned textbook or instructional material as is provided to every other pupil enrolled in the same grade and same course offered by the local educational agency.

### **Deferred Maintenance**

Although districts in the deferred maintenance program will receive the State's share of deferred maintenance in the current year and 2009-10, the enacted Budget eliminates the requirement to contribute one half of 1% of revenue limit funding for the 2008-09 through 2012-13 fiscal years. Districts must make the 2007-08 deferred maintenance match in order to qualify for flexibility in 2008-09 through 2012-13.

The State Allocation Board met on Wednesday, February 25, 2009 and had set the deferred maintenance match rate at **68.27%** of the maximum basic apportionment. Districts have no later than 60 days from the State Allocation Board (SAB) approval date, or no later than April 25, 2009 to make the required contribution for fiscal year 2007-08.

### **Routine Restricted Maintenance**

From 2008-09 through 2012-13, school districts may reduce their required contributions to the routine restricted maintenance account from 3% to 1%. Because a large majority of the expenditures is tied to staffing and necessary ongoing maintenance, districts may have difficulties reducing routine restricted maintenance expenditures from 3% to 1%. The flexibility to lower the routine restricted maintenance expenditures may be prohibited or limited based on status of bonds.

### **Reserve for Economic Uncertainties**

The enacted Budget maintains the minimum reserve requirement levels for economic uncertainties. The current required percentages established in the Criteria and Standards for reserves are the BARE MINIMUM. Our office continues to recommend that in times of great economic and budget

uncertainty, combined with the multiple apportionment deferrals, districts need reserves that are greater than the required minimum.

### **Lottery**

The State Controller's Office apportioned \$30.52 (unrestricted) per ADA for the first quarter of 2008-09. This is \$5.92 per ADA less than the first quarter of 2007-08. Based on current Lottery sales and a projected 10% decrease in sales, the 2008-09 Lottery apportionment is projected at \$109.50/ADA for unrestricted and \$11.50/ADA for the Proposition 20 Instructional Materials.

### **High Priority Schools Grant Program**

The enacted Budget includes funding in the current fiscal year for the High Priority Schools Grant. However, funding is eliminated for 2009-10.

### **Medi-Cal Administrative Activities (MAA)**

On Tuesday, February 17, 2009 President Obama signed into law The American Recovery and Reinvestment Act, which included a provision to extend the moratorium to eliminate federal funding of the MAA program. Medicaid reimbursement is now available through June 30, 2009 for school based administration and transportation services.

### **Mandates**

There is no change to existing K-12 mandates. We recommend that districts continue to file claims for past mandated costs until the Legislature suspends or repeals specific mandates.

### **Charter School General Purpose Block Grants**

The enacted Budget projects the Charter School Block Grant rates as listed below. Please note that the rates typically fluctuate throughout the year since they are based on the K-12 statewide average for revenue limit funding. The Categorical Block Grant rate is expected to be reduced from \$500 to \$423 in 2008-09 and to \$404 in 2009-10 across all grade levels.

Grade Level	2008-09 Projected Rates		2009-10 Projected Rates	
	General Purpose	Categorical	General Purpose	Categorical
K-3	\$5,439	\$423	\$5,400	\$404
4-6	\$5,521	\$423	\$5,483	\$404
7-8	\$5,679	\$423	\$5,644	\$404
9-12	\$6,589	\$423	\$6,545	\$404

### **Property Taxes**

For the 2008-09 fiscal year, the Orange County Auditor-Controller's Office latest projections indicate a 1% increase in Secured Taxes, zero percent growth in Unsecured Taxes, and a 40% decline in Supplemental Taxes. Districts should project flat growth in property taxes for 2009-10, and a slight decline in 2010-11.

### **Interest Yield Projection**

The latest interest yield projection provided by the Orange County Treasurer is 2.0% for fiscal year 2008-09 and 1.35% for the 2009-10 fiscal year. This is based on the current yield environment taking into account any possible action from the Federal Open Market Committee. This information is updated throughout the year in the Orange County Treasurer's Monthly Management Reports.

### **Cash Management / Apportionment Deferrals**

The enacted Budget defers \$2 billion in revenue limit apportionment as well as \$570 million K-3 CSR payments from February to July 2009. In addition, \$1 billion in revenue limit apportionments will be deferred from July to October and \$1.5 billion from August to October. The June to July deferral is also increased by \$340 million. Districts should plan that the June P2 apportionment that was normally received in early July will be apportioned at the end of July. A great deal of emphasis must be placed on cash flow analysis and monitoring in regards to the impact of reduced or deferred apportionments for the current and subsequent years. This makes it even more imperative that districts maintain reserves greater than the State minimum required level.

<b>K-12 Deferral Amount</b>	<b>Timeframe</b>
\$2.57 Billion <ul style="list-style-type: none"><li>\$2 Billion Revenue Limit</li><li>\$570 Million K-3 CSR Funding</li></ul>	February to July
\$1.6 Billion	June to July
\$1.0 Billion	July to October
\$1.5 Billion	August to October

The following programs are funded through the principal apportionment and hence would be affected by the deferrals:

<b>Principal Apportionment Program</b>	<b>Resource Code</b>	<b>Object Code</b>
Adult Education	6390	8311
Adults in Correctional Facilities	6015	8590
Apprenticeship Funding	6350/6390	8311
Basic Aid "Choice"	0000	8011
Basic Aid Supplement Charter School Adjustment	0000	8011
California High School Exit Exam (Supplemental Instruction, Grades 7-12)	0000	8311
Charter School Categorical Block Grant	0000	8480
Community Day School Additional Funding	2430	8311
Core Academic Program (Supplemental Instruction, Grades K-12)	0000	8311
Court Ordered Voluntary Pupil Transfer	0000	8011
Direct Funded School General Purpose Entitlement	0000	8015
Gifted and Talented Education Program	7140	8311
Local Funded Charter School General Purpose Entitlement	0000	8015
Low STAR Score and at Risk of Retention (Supplemental Instruction, Grades 2-6)	0000	8311
New Charter School Advance Payments	0000	8015/8480
PY Recomputations and Adjustments	various	various
Regional Occupational Center/Program (ROC/P)	6350	8311
Retained and Recommended for Retention (Supplemental Instruction, Grades 2-9)	0000	8311
School District Revenue Limit	0000	8011
Special Education AB 602	6500	8311
Special Education Infants 0-2	6510	8311
Special Education ROC/P Handicapped	6360	8311

### **May 19<sup>th</sup> Special Election**

The enacted Budget includes six propositions that require voter approval in a special election to be held on May 19<sup>th</sup>:

- Proposition **1A**: State Finance Budget Stabilization - Establishes a rainy day fund beginning in 2011-12.
- Proposition **1B**: K-14 Education Finance – Beginning in 2011-12, Proposition 98 would receive payments in the amount of 1.5% of revenues until \$9.3 billion is reached. This is in lieu of the maintenance factor for 2007-08 and 2008-09 and only goes into effect if Proposition 1A passes. In addition, up to \$200 million in revenue limit equalization funding must be made for 2011-12.
- Proposition **1C**: California State Lottery - As enacted, a balanced Budget is predicated upon voter approval of the \$5 billion lottery securitization on the May 19th special election. This would eliminate lottery funding for school districts beginning in 2009-10. If the Lottery Securitization Proposition is approved, Proposition 98 funding would be increased by an appropriate amount to make up for the lost lottery funding.
- Proposition **1D**: California Children and Families Act - Allows the state to redirect the use of Proposition 10 Child Development monies.
- Proposition **1E**: Mental Health Services Act - Allows the state to redirect the use of Proposition 63 Mental Health monies.
- Proposition **1F**: State Officer Salary Increases – Prohibits salary increases for legislators or other state officers if the Director of Finance has certified there will be a negative balance in Special Fund for Economic Uncertainties.

Note that Enacted Budget delays the Governor's May Revision to June 8 or six calendar days after the next statewide election, whichever is later.

### **Federal Stimulus Package**

On Tuesday, February 17, 2009 President Obama signed into law the \$789 billion federal stimulus package to boost the national economy. California's share is estimated at \$8.0 billion with \$1.1 billion for Title I, \$1.3 billion for special education, \$4.9 billion for fiscal stabilization, \$377 million for School Improvement Grant, \$220 million for Child Development Block Grant, and \$71 million for education technology. However, these are one-time funds and it is the Governor's discretion as to how the funds will be distributed. Currently, there are many unknowns including how much will actually reach schools, when the funding will be received, and what is considered appropriate uses. Therefore, it is inappropriate to recognize any funding from the Federal Stimulus Package until districts receive an official notification of an allocation.

We recommend that school districts budget conservatively and not plan on receiving these funds until further details are available.

## **SUMMARY**

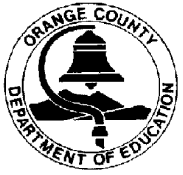
Our office recognizes that these are difficult and unique economic times and that school district budgets should be managed with a great degree of conservatism over the next few years. The 17 month enacted Budget contains a number of provisions that require voter approval on May 19<sup>th</sup> and is subject to potential future changes as a result of the Governor's May Revision or future legislation. Therefore, it is important that school districts be proactive by developing contingency plans that allow for the most flexibility possible. If you have any questions or concerns regarding this information, please contact me at (714) 966-4229 or Darren Dang at (714) 966-4176.

### **Attachments**

cc: Superintendents

Dari Barzel, Moodys

Jean Buckley, Tamalpais Advisors Inc.



WILLIAM M. HABERMEHL  
County Superintendent of Schools

## **Attachment A – Budget Reductions for Fiscal Year 2010-11**

The District Board of Education shall certify in writing whether or not the District is able to meet its financial obligations for the remainder of the fiscal year and, based on current forecasts, for two subsequent fiscal years. The certifications shall be classified as positive, qualified, or negative, pursuant to standards and criteria adopted by the State Board of Education (Education Code 33127).

In certifying the 2008-09 Second Interim Report as positive, the Board understands its fiduciary responsibility to maintain fiscal solvency for the current and subsequent two fiscal years.

The seventeen month State Budget, signed by the Governor on February 20, 2009, reduced revenue limit funding for 2008-09 by (2.63%), and an additional (0.969%) in 2009-10. Furthermore, most State categorical programs were reduced by (15.4%) in 2008-09 and by (4.5%) in 2009-10 with the exception of the following eight programs: After School Education and Safety, Child Development, Child Nutrition, Economic Impact Aid (EIA), Home to School Transportation, K-3 Class Size Reduction, Quality Education Investment Act (QEIA), and Special Education, which were not reduced.

In addition to submitting a detailed list of Board approved ongoing budget reductions for 2008-09 and 2009-10, the District will identify \$(\_\_\_\_\_) of ongoing budget reductions for 2010-11 in order to maintain a positive certification.



**2008-09**  
**Projected Change per ADA in Revenue Limit Funding for COLA**  
**K-12 Districts in Orange County**

**Attachment B**

	2007-08 Base R/L	2008-09 Base R/L with 5.66% COLA	2008-09 Deficit Base R/L	Projected Change in R/L Funding	Projected % Change in R/L Funding
			0.921557 deficit factor		
<b><u>Elementary</u></b>					
Anaheim City	5,531.56	5,846.56	5,387.94	(143.62)	(2.60%)
Buena Park	5,541.49	5,856.49	5,397.09	(144.40)	(2.61%)
Centralia	5,530.80	5,845.80	5,387.24	(143.56)	(2.60%)
Cypress	5,530.14	5,845.14	5,386.63	(143.51)	(2.60%)
Fountain Valley	5,515.36	5,830.36	5,373.01	(142.35)	(2.58%)
Fullerton	5,557.24	5,872.24	5,411.60	(145.64)	(2.62%)
Huntington Beach City	5,526.41	5,841.41	5,383.19	(143.22)	(2.59%)
La Habra City	5,529.81	5,844.81	5,386.33	(143.48)	(2.59%)
Magnolia	5,535.06	5,850.06	5,391.16	(143.90)	(2.60%)
Ocean View	5,523.12	5,838.12	5,380.16	(142.96)	(2.59%)
Savanna	5,529.73	5,844.73	5,386.25	(143.48)	(2.59%)
Westminster	5,522.22	5,837.22	5,379.33	(142.89)	(2.59%)
<b><u>High Schools</u></b>					
Anaheim Union	6,648.36	7,027.36	6,476.11	(172.25)	(2.59%)
Fullerton Joint Union	6,683.76	7,062.76	6,508.74	(175.02)	(2.62%)
Huntington Beach Union	6,676.02	7,055.02	6,501.60	(174.42)	(2.61%)
<b><u>Unified</u></b>					
Brea-Olinda	5,783.92	6,112.92	5,633.40	(150.52)	(2.60%)
Capistrano	5,783.18	6,112.18	5,632.72	(150.46)	(2.60%)
Garden Grove	5,780.35	6,109.35	5,630.11	(150.24)	(2.60%)
Irvine	5,774.41	6,103.41	5,624.64	(149.77)	(2.59%)
Laguna	5,784.77	6,113.77	5,634.19	(150.58)	(2.60%)
Los Alamitos	5,931.12	6,260.12	5,769.06	(162.06)	(2.73%)
Newport-Mesa	5,833.90	6,162.90	5,679.46	(154.44)	(2.65%)
Orange	5,786.71	6,115.71	5,635.98	(150.73)	(2.60%)
Placentia-Yorba Linda	5,822.02	6,151.02	5,668.52	(153.50)	(2.64%)
Saddleback Valley	5,784.66	6,113.66	5,634.09	(150.57)	(2.60%)
Santa Ana	5,777.84	6,106.84	5,627.80	(150.04)	(2.60%)
Tustin	5,786.25	6,115.25	5,635.55	(150.70)	(2.60%)



WILLIAM M. HABERMEHL  
County Superintendent of Schools

**2009-10**  
**Projected Change per ADA in Revenue Limit Funding for COLA**  
**K-12 Districts in Orange County**

**Attachment C**

	2008-09 Base R/L with 5.66% COLA	2008-09 Deficited Base R/L	2009-10 Base R/L with 5.02% COLA	2009-10 Deficited Base R/L	Projected Change in Deficited R/L Funding	Projected % Change in Deficited R/L Funding
		0.921557 deficit factor		0.869061 deficit factor		
<b><u>Elementary</u></b>						
Anaheim City	5,846.56	5,387.94	6,141.56	5,337.39	(50.55)	(0.94%)
Buena Park	5,856.49	5,397.09	6,151.49	5,346.02	(51.07)	(0.95%)
Centralia	5,845.80	5,387.24	6,140.80	5,336.73	(50.51)	(0.94%)
Cypress	5,845.14	5,386.63	6,140.14	5,336.16	(50.47)	(0.94%)
Fountain Valley	5,830.36	5,373.01	6,125.36	5,323.31	(49.70)	(0.92%)
Fullerton	5,872.24	5,411.60	6,167.24	5,359.71	(51.90)	(0.96%)
Huntington Beach City	5,841.41	5,383.19	6,136.41	5,332.91	(50.28)	(0.93%)
La Habra City	5,844.81	5,386.33	6,139.81	5,335.87	(50.46)	(0.94%)
Magnolia	5,850.06	5,391.16	6,145.06	5,340.43	(50.73)	(0.94%)
Ocean View	5,838.12	5,380.16	6,133.12	5,330.06	(50.10)	(0.93%)
Savanna	5,844.73	5,386.25	6,139.73	5,335.80	(50.45)	(0.94%)
Westminster	5,837.22	5,379.33	6,132.22	5,329.27	(50.06)	(0.93%)
<b><u>High Schools</u></b>						
Anaheim Union	7,027.36	6,476.11	7,382.36	6,415.72	(60.39)	(0.93%)
Fullerton Joint Union	7,062.76	6,508.74	7,417.76	6,446.49	(62.25)	(0.96%)
Huntington Beach Union	7,055.02	6,501.60	7,410.02	6,439.76	(61.84)	(0.95%)
<b><u>Unified</u></b>						
Brea-Olinda	6,112.92	5,633.40	6,421.92	5,581.04	(52.36)	(0.93%)
Capistrano	6,112.18	5,632.72	6,421.18	5,580.40	(52.33)	(0.93%)
Garden Grove	6,109.35	5,630.11	6,418.35	5,577.94	(52.18)	(0.93%)
Irvine	6,103.41	5,624.64	6,412.41	5,572.78	(51.86)	(0.92%)
Laguna	6,113.77	5,634.19	6,422.77	5,581.78	(52.41)	(0.93%)
Los Alamitos	6,260.12	5,769.06	6,569.12	5,708.97	(60.09)	(1.04%)
Newport-Mesa	6,162.90	5,679.46	6,471.90	5,624.48	(54.99)	(0.97%)
Orange	6,115.71	5,635.98	6,424.71	5,583.46	(52.51)	(0.93%)
Placentia-Yorba Linda	6,151.02	5,668.52	6,460.02	5,614.15	(54.36)	(0.96%)
Saddleback Valley	6,113.66	5,634.09	6,422.66	5,581.68	(52.40)	(0.93%)
Santa Ana	6,106.84	5,627.80	6,415.84	5,575.76	(52.04)	(0.92%)
Tustin	6,115.25	5,635.55	6,424.25	5,583.07	(52.49)	(0.93%)



## 2009 SSC School District and County Office Financial Projection Dartboard 2009-10 Budget Act

This version of SSC's Financial Projection Dartboard is based on the enactment of the 2009-10 Budget Act. We have updated the COLA, CPI, and ten-year T-bill factors per the latest economic forecasts, and this resulted in changes to virtually every factor for 2008-09 and thereafter. 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, at best, general guidelines.

<b>Factor</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>
Statutory COLA (use for K-12 and COE Revenue Limits)	5.66%	5.02%	0.70%	2.30%	2.50%	3.00%
Revenue Limit Deficits:						
Eliminates COLA	0.94643	0.90117	0.90117	0.90117	0.90117	0.90117
Further RL Cut	0.97372	0.96437	0.96437	0.96437	0.96437	0.96437
Total Deficit %	7.844%	13.094%	13.094%	13.094%	13.094%	13.094%
Net Revenue Limit Change: K-12	-2.63%	-0.969%	0.70%	2.30%	2.50%	3.00%
Revenue Limit Deficits - COEs:						
Eliminates COLA	0.94643	0.90117	0.90117	0.90117	0.90117	0.90117
Further RL Cut	0.97378	0.96142	0.96142	0.96142	0.96142	0.96142
Total Deficit %	7.839%	13.360%	13.360%	13.360%	13.360%	13.360%
Net Revenue Limit Change: COEs	-2.62%	-1.27%	0.70%	2.30%	2.50%	3.00%
Special Education COLA (on state and local share only) <sup>1</sup>	0.00%	0.00%	0.70%	2.30%	2.50%	3.00%
State Categorical Funding (including adult education and ROC/P) <sup>1</sup>						
Tier I	0.00%	0.00%	0.70%	2.30%	2.50%	3.00%
Tier II	-15.38%	-4.46%	0.70%	2.30%	2.50%	3.00%
Tier III	-15.38%	-4.46%	0.70%	2.30%	2.50%	3.00%
California CPI	1.90%	0.8%	1.90%	2.30%	2.80%	3.20%
California Lottery <sup>2,3</sup>	Base	\$109.50	\$109.50	\$109.50	\$109.50	\$109.50
	Prop 20	\$11.50	\$11.50	\$11.50	\$11.50	\$11.50
Interest Rate for Ten-Year Treasuries	2.90%	3.00%	3.40%	3.90%	4.30%	4.50%

<b>ESTIMATED STATEWIDE AVERAGE BASE REVENUE LIMITS PER ADA "UNDEFICITED"</b>			
<b>Year</b>	<b>Elementary</b>	<b>High School</b>	<b>Unified</b>
2008-09 Statewide Average (est.)	\$5,882	\$7,069	\$6,150
2009-10 Inflation Increase @ 5.02% COLA	\$295	\$355	\$309
2009-10 Statewide Average (est.)	\$6,177	\$7,424	\$6,459

<b>2009-10 BUDGET ACT ESTIMATED CHARTER SCHOOL RATES</b>				
	<b>K-3</b>	<b>4-6</b>	<b>7-8</b>	<b>9-12</b>
General Purpose Block Grant (will change at each apportionment)	\$5,400	\$5,483	\$5,644	\$6,545
Categorical Block Grant (est.) <sup>4</sup>	\$404	\$404	\$404	\$404
Total	\$5,804	\$5,887	\$6,047	\$6,949

<sup>1</sup> The categorical cut percentages are based on the amount of cut from prior-year funding.

<sup>2</sup> The forecast for Lottery funding per ADA includes both base (unrestricted) funding and the amount restricted by Proposition 20 (2000) for instructional materials.

<sup>3</sup> If securitization of the Lottery is passed by the voters, the years of 2009-10 through 2013-14 will no longer be based on Lottery sales.

<sup>4</sup> The charter school categorical block grant rates provided by the Department of Finance shown do not include Economic Impact Aid funding, which is provided separately.

## SBX3 4 -- Programs and Flexibility for 2008-09 to 2012-13

How Does Flexibility Work: There are two parts to the flexibility included in SBX3 4. (A) Allows for transfers of 2007-08 ending balances from most categoricals to the unrestricted fund on a one-time basis. (B) Allows for most state categoricals to be transferred to any "educational purpose" (includes unrestricted General Fund or other categorical programs) for the period from 2008-09 to 2012-13. There are several programs excluded from this flexibility including K-3 CSR, Economic Impact Aid, English Language Acquisition Program, and Home to School Transportation.

Funding levels in each year will be based on amount received in 2008-09 (after budget reduction). To the extent additional or less funds are available in subsequent years, adjustments will be made to all local education agencies in an equal percent basis. For example, if a 3% increase in funding to the programs included within the flexibility is provided, all local education agencies would receive a 3% increase regardless of their initial base funding level. The reductions apply to Tier II and III programs as follows: 15.4% in 2008-09 plus an additional 4.4% in 2009-10.

Flex to Sweep Ending Balance as of June 30, 2008	Tier I -- NOT Subject to Cuts or Flexibility	Tier II -- Subject to Cuts, but No Flexibility	Tier III -- Subject to Cuts WITH Flexibility	Resource Code	Program
x			x	7325	Administrator Training Program (AB 430)
			x	6390	Adult Education
x		x		6015	Adults in Correctional Facilities
			x	0000	Advanced Placement Grant
x	x			7340	Advancement via Individual Determination (AVID)
	x			6010	After School Education and Safety
x		x		7010	Agricultural Vocational Education Programs
x			x	6260/6263	Alternative Credentialing
		x		0000	Apprentice Programs
x			x	6760	Arts and Music Block Grant
x				6761	Arts, Music and Physical Education
x			x	7275	Bilingual Teacher Training (BTTP)
			x	7055	CAHSEE Intervention Grants
			x	7056	CAHSEE Supplemental Instructional Materials
x			x	7360	California Association of Student Councils
x			x	0000	California Indian Education Centers
x				0000	California Indian Education Centers (non prop 98)
x			x	6091-92	CalSAFE
x				6377	Career Technical Education
x			x	7810	CBO Training Program (SB 352)
x			x	7810	Center for Civic Education
x			x	7276	Certificated Staff Mentoring Program
x		x		6030	Charter School Facility Grants
x			x	0000	Charter Schools Categorical Block Grant
	x			6040 et al	Child Development
*	x			5310	Child Nutrition
*	x			5380	Child Nutrition - Summer Food Service Program
x			x	0000	Child Oral Health Assessments
x			x	7385	COE Williams Audits
x			x	6285	Community Based English Tutoring (CBET)
x			x	2430	Community Day Schools
x			x	7080	Counselors, Grades 7-12
x		x		0000/8590	County Office Oversight (FCMAT)
			x	6205	Deferred Maintenance
x				7396-97	District and Site Discretionary Block Grant
	x			7090	Economic Impact Aid (LEP and SCE)
x			x	7110	Education Technology
x				7398	Education Technology and Instructional Materials
x		x		6286	English Language Acquisition Program
				7157	English Learners Instructional Materials
	x			3010-5810	Federal Resources
x		x		7365	Foster Youth Educational Services
x			x	7140	Gifted and Talented Education (GATE)
x	x			6240	Healthy Start
x			x	7258	High Priority Schools
x			x	7282	High School Coaching Training
			x	7256	Imme Interv/Underperforming
x			x	7210	Indian Education Centers: Early Childhood Programs
x				7026	Instructional Gardens
			x	7156	Instructional Materials Fund
				7158	Instructional Materials Williams
x			x	7286	International Baccalaureate (College Preparation)
x		x		7126	K-12 High Speed Network
	x			1300	K-3 Class Size Reduction
	x			6300	Lottery Instructional Materials -- Proposition 20
x			x	7294	Math & Reading Training (SB 472)
x			x	1200	Morgan-Hart Class Size Reduction (Grade 9)
x		x		0000	Multi-Track Year Round School Grant Program
x			x	6267	National Board Certification Incentive
x				6340	Nell Soto Parent Involvement

# Attachment E

Flex to Sweep Ending Balance as of June 30, 2008	Tier I -- NOT Subject to Cuts or Flexibility	Tier II -- Subject to Cuts, but No Flexibility	Tier III -- Subject to Cuts WITH Flexibility	Resource Code	Program
x		x		7220	Partnership Academies
x			x	7271	Peer Assistance and Review (PAR)
x			x	6258	Physical Education Teacher Recruitment Grants
x			x	7393	Professional Development Block Grant
x			x	7390	Pupil Retention Block Grant
x		x		0000/7810	Pupil Testing (STAR, CAHSEE, CELDT, etc.)
	x			7230	Pupil Transportation
	x			7400	Quality Education Investment Act (QEIA)
x			x	7295	Readers for the Blind
x			x	6350	ROC/P
*				8100	Routine Restricted Maintenance
x			x	7268	SAIT and Corrective Actions
x			x	7395	School and Library Improvement Block Grant
	x			7235	School Bus Replacement
x			x	6405	School Safety Block Grants (Carl Washington)
x			x	7391	School Safety Consolidated Competitive Grant
	x			65xx/6360	Special Education
x			x	7370	Specialized Secondary Programs
	x			1100	State Lottery
x			x	0000	Supplemental Hourly Programs
			x	7394	Targeted Instructional Improvement Block Grant
x			x	7392	Teacher Credentialing Block Grant
x			x	0000	Teacher Dismissal Apportionments
x			x	6275	Teacher Retention and Recruitment
	x			6650	Tobacco Use Prevention Education (TUPE)
	x			7240	Transportation: Special Education (Severely Disabled / Orthopedically Impaired SD/OI)
x				6225-26	Williams Facility and Instructional Materials (funding suspended in 2009-10)

\* certain restrictions apply

Source: School Services of California (2008-09 & 2009-10 Categorical Flexibility Overview), California Department of Education letter dated 2/25/2009, and analysis from the Association of California School Administrators.