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May 28, 2010

To: Assistant Superintendents, Business Services
Directors, Business Services
ROC/Ps

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

Subject: **2010-11 Budget and Related Multi-Year Projections
(May Revise Update)**

Since May 2008, County Office Chief Business Officials have been working with various statewide educational organizations to craft common messages to advise school districts on assumptions for budget and interim reports. The attached common message provides updated guidance for the 2010-11 budget development process based on the Governor's 2010 May Revision.

If you have any questions or concerns regarding this information, please contact me at (714) 966-4229.

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Recommended Assumptions for 2010-11 Budgets and Related MYPs Based on the Governor's May 2010 Revise May 28, 2010

BACKGROUND

Since May 2008, County Office Chief Business Officials have been working with various statewide educational organizations to craft common messages and to advise school districts on assumptions for budget and interim reports. Our goal is to have as consistent a county office message as possible to school districts. This edition provides guidance for the 2010-11 Budget and related multi-year projections (MYPs) and reflects the 2010-11 Governor's May Revise Budget.

The Governor continues to acknowledge that the State is in a serious fiscal crisis. The May Revise Budget has a shortfall of \$19.1 billion for 2010-11, slightly smaller than the \$19.9 billion shortfall in the January budget. The Governor proposes to eliminate this shortfall through \$12.4 billion in expenditure reductions, \$3.4 billion in additional federal revenues, and \$3.4 billion in borrowing funds shifts, asset sales, and surcharges. No new taxes are being proposed.

For 2010-11, the Prop 98 guarantee has fallen to \$48.4 billion. The Governor has stated that education continues to be "protected" in this May Revise budget. It is important to note that "protected" does not mean that school districts will be spared reductions. **In fact, school funding as proposed by the Governor in the May Revise is \$4.1 billion below what Proposition 98 calls for. The Governor proposes a negative 0.39% cost-of-living adjustment (COLA) to the revenue limit and a negative 0.38% to certain categorical programs and an additional ongoing reduction of 3.85% to each school district's undeficit base revenue limit (BRL). Depending upon the school district BRL, this can range from approximately \$225/ADA to \$280/ADA. This replaces the fixed dollar reduction per ADA by type of school district (\$191/ADA for elementary school districts, \$201/ADA for unified school districts, and \$231/ADA for high school districts) proposed in January. About \$2.5 billion was taken from education in the January 2010 Budget and this remains unchanged with the May Revise.**

The good news is that the Governor has dropped the proposal that the ongoing revenue limit reduction be targeted at central administration. School districts now have local discretion over the implementation of the cuts.

The Governor's Proposed 2010-11 May Revise Budget provides his last set of budget proposals to the Legislature and many changes will take place prior to the adoption of an actual 2010-11 State Budget. School districts are cautioned to be conservative with the development of the 2010-11 Budget. **It is possible that the total amount of reductions in the Governor's May Revise Budget is the best case scenario and future changes could produce further reductions to education.** There are several significant factors that warrant such caution:

- Given that there are significant financial and political downside risks to the Governor's 2010-11 May Revise Budget, the risk of further education cuts in the final adopted budget outweigh the potential for any augmentations for K-12 education.
- The Governor's 2010-11 May Revise Budget is predicated upon some very uncertain revenue increases and expenditure reductions. For example, the proposed budget assumes the Federal Government will provide \$3.4 billion in unrestricted federal funding to California.

- Many of the proposed expenditure reductions are similar to ones proposed last year and not enacted. It is anticipated that the Legislature will have considerable difficulty in agreeing to the reductions as many of the State's social welfare programs have been eliminated or severely reduced.
- ARRA funds are one-time revenues and must be spent by September 30, 2011 with the exception of Title I ARRA which must be expended by September 30, 2010. Additionally, the State is no longer impacted by the federal maintenance of effort requirements as of June 30, 2011.
- There are some signs of a US economic recovery, but California lags far behind. Unemployment is 12.6% compared to 9.9% for the US as a whole.
- 2010 is a major election year. There is uncertainty as to whether a State Budget will be enacted prior to or after the November 2010 election.
- There are possibilities of court challenges over the proposed reductions such as CalWORKS and state worker pay cuts.

2010-11 BUDGETS

Revenue Limit and Categorical Reversion

The 2010-11 May Revise Budget specifies the deficit factor for revenue limits for 2009-10 and 2010-11 as defined in the following table.

	2009-10	2010-11
Statutory Cost of Living Adjustment (COLA)	4.25%	(0.39%)
K-12 Deficit	18.355% (0.81645)	18.355% (0.81645)
County Office Deficit	18.621% (0.81379)	18.621% (0.81379)

The (0.39%) COLA translates into the following per ADA amounts:

School District Type	2010-11 Statutory COLA (0.39%)
Elementary	(\$24)
High School	(\$29)
Unified	(\$25)

In addition, pursuant to ABX4 3 (Chapter 3/2009/10), all school districts including basic aid were required to make a one-time reduction to the 2009-10 revenue limit income of \$252.99 per average daily attendance (ADA). This \$252.99 per ADA reduction in 2009-10 was for the \$1.516 billion needed to restore the categorical reductions taken in 2008-09.¹ This reduction is not continued in 2010-11.

¹ In order to reduce the Proposition 98 funding level without having to suspend Proposition 98, the Legislature captured \$1.6 billion in categorical funds unallocated, unexpended, or not liquidated in 2008-09. With the exception of High Priority Schools Grant, which is eliminated in 2008-09, \$1.5 billion is restored in 2009-10. Per Section 5 of ABX4 3, apportionments for school districts, county offices, and charter schools are reduced on a one time basis in 2009-10 by an equivalent amount to fund the \$1.5 billion categorical restoration.

However, for 2010-11, the May Revise Budget proposes an ongoing cut of \$1.5 billion. Currently, the Department of Finance (DOF) is proposing to implement this cut by applying a 3.85% reduction to each school district's undeficit base revenue limit. This equals approximately \$225/ADA to \$280/ADA and will be an ongoing reduction. Once the reduction has been calculated, subtract this amount from the deficit base revenue limit. As a result, any reduction in the deficit factor will not reduce this cut. In other words, this would be an ongoing reduction and would not diminish even if the deficit factor is fully eliminated in the future.

Please note that the May Revise does not contain this specific application for the \$1.5 billion reduction. This is the DOF's current suggestion and therefore, could change in form prior to adoption of a State Budget.

However, we recommend that you use these figures to align your local budget with the Governor's May Revise proposals. From this starting point, it is then appropriate to make further adjustments, based on your assessment of the risks of further reductions that may be adopted by the Legislature as it deliberates the various proposals submitted by the Governor. As noted in the Background to this common message, there are a number of downside risks to the May Revise proposal that could warrant further reductions.

In addition, in developing your local budget for 2010-11, you should acknowledge the unique circumstances in your school district. Some factors could include the size of your current reserve, enrollment trends, and one-time revenues or expenditures that expire in the budget year. These and other factors would warrant adjustments, either up or down, from the starting point of the Governor's May Revise Budget.

We again caution school districts that there are likely to be more changes before a State budget is enacted and there could be additional cuts to Education.

We recommend that school districts use the School Services of California (SSC) dartboard, which was updated based on the Governor's 2010-11 May Revise Budget, in the development of the 2010-11 Budget and the related MYPs for 2011-12 and 2012-13. We strongly agree with SSC's Dartboard footnote that suggests that COLAs for 2011-12 may not be funded. Therefore, it is essential that school districts budgeting for positive COLAs on the MYP should have a contingency plan in place in the event that the COLAs are not funded.

As an additional note of caution, school districts should carefully review their revenue limit projections. Due to the deficits and changes in both property taxes and State aid, it is possible that a school district might temporarily shift in or out of basic aid status. Basic aid school districts were also subject to the estimated \$252.99 per ADA one-time reduction from their categorical funding in 2009-10. This amount was deducted from a basic aid school district's State categorical aid in 2009-10, exclusive of Special Education, After School Education and Safety Program (ASES), Quality Education Investment Act (QEIA), and child care and development funding.

In recognition of the drop in assessed values and decreases in Statewide property tax projections, the Governor's May Revise Budget does not propose reductions for basic aid school district funding for 2010-11. However, the 2009 Budget Act did include a "fair share" of 5.81% to be implemented in the 2010-11 fiscal year based on the Second Principal Apportionment base revenue limit for 2009-10. **Applying further fair share reductions as currently identified in the 2009-10 State Budget to 2010-11, the Legislature could decide that basic aid school districts would be subject to the \$1.5 billion ongoing reduction of approximately 3.85%.**

Please note that the reduction, however, cannot violate the California Constitution (Section 6 of Article IX) requirement that the State provide at least \$120 per ADA, or \$2,400 per school agency, whichever is greater (Education Code Section 41975). Thus this creates in essence a floor in which a basic aid school

district would always be left with at least the \$120/\$2,400 constitutionally protected funding under this calculation and would not have to lose additional funding once that level is reached.

Special Education

Special Education AB 602 funding has a negative COLA of 0.38%. Growth is funded at \$3.6 million or \$463.67/ADA.

The AB 602 Special Disabilities Adjustment (SDA) appropriation was included in the 2009-10 Budget, but the necessary statutory language to provide the authority to calculate and disburse the funds was not included in the budget trailer bill. CDE has apportioned these funds to date, but Legislation is required by July to fix this problem or CDE will take back the allocation from the affected SELPAs. Similar language will also be required for 2010-11 in order for CDE to disburse the SDA funds.

Another special education issue of critical importance is the proposal to suspend AB 3632 (Chapter 1747/1984). The legislation mandated county mental health agencies to provide services to children with disabilities. The Governor has proposed to suspend approximately \$52 million in funding for this mandate. This allocation was provided directly to county mental health agencies. If this proposal is enacted, it is likely that the cost of providing these services will shift to school districts and COEs as they are the “payer of last resort” for services specified in a student’s Individualized Education Program (IEP). School districts should discuss this with their SELPA and fiscally plan for this action.

State Fiscal Stabilization Funds (SFSF)

K-12 schools are entitled to \$3.1 billion under the SFSF, with \$2.9 billion already received, and \$2.6 billion currently distributed to K-12 education.

Another \$0.3 billion will soon be distributed to K-12 schools, for a total Phase I allocation of \$2.9 billion (approximately \$500 per student).

The remaining \$0.2 billion has not been received from the federal government.

School districts should not budget any remaining additional SFSF allocations until the actual cash apportionment is received. However, school districts may budget in SFSF, the amount that was allocated by the CDE to backfill for the QEIA shift.

Please note that all ARRA funds must be expended by September 30, 2011. Therefore, no ARRA funds can be shown as a beginning balance or as revenue for the 2012-13 MYP.

Quality Education Investment Act of 2006 (QEIA)

The May Revise does not address the revenue source for QEIA funding for 2010-11. This will need to be addressed with the enactment of a State Budget.

QEIA is also extended one more year to 2014-15 to fully meet the State’s obligation for QEIA.

K-3 Class Size Reduction

Previously, K-3 Class Size Reduction (CSR) funding was based on grade levels included in the school district’s application. ABX4 2 caps the funding for eligible K-3 CSR at the total number of classes rather than grade levels on the application as of January 31, 2009. Local educational agencies (LEAs) may claim an Option One (full-day) class in lieu of an Option Two (half-day) class. The districtwide cap is calculated based on the total number of Option One and Option Two classes, making no distinction in type. **In other words, LEAs may choose to have an Option One class in place of a previous Option Two class.**

The Governor has not proposed any additional flexibility for CSR for 2010-11. School districts will receive \$1,067 per pupil for a full day and \$533 per pupil for a half day based on the application of the (0.38%) COLA. The penalties are still in place through 2011-12 as follows:

CSR Graduated Penalties	
Class Size	2008-09 to 2011-12
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 or more	30% penalty

School districts must note that the education code provides for maximum class size limits as follows:

- Kindergarten: Average of 31:1, with no class exceeding 33
- Grades 1-3: Average of 30:1, with no class exceeding 32
- Grades 4-8: Average of 29.9:1 or the school district's average number of pupils per teacher in 1964, whichever is greater.

If a school district exceeds these limits, there will be a loss of the revenue limit funding for every student over these limits.

Also note that the May Revise continues to assume that school districts will not access \$340 million in K-3 CSR funding for 2009-10 and \$550 million in 2010-11. If the actual apportionments for CSR funding require some or all of these amounts, the Legislature will need to increase the K-3 CSR appropriations or deficit the per pupil incentive allocations.

Note that the CSR flexibility ends as of June 30, 2012, one year earlier than the Tier III flexibility. This is a different sunset date than the Tier III categorical program flexibility which ends on June 30, 2013. For the 2012-13 MYP, school districts must return to 20:1 class sizes in order to receive the incentive funding.

Transportation

Home to School Transportation and Special Education Transportation funding is reduced by 19.84% in 2009-10 based on the 2007-08 funding level. For 2010-11, the negative COLA adjustment of 0.38% is applied.

Instructional Materials

ABX4 2 extends the suspension of the Instructional Materials requirement from 2009-10 through 2012-13 and postpones the State Board of Education's adoption cycle for an equivalent time-frame. **Therefore, school districts will not be required to purchase materials under the adoption schedule for 2009-10 through 2012-13. However, if new adoption materials are purchased, they must be made available to all pupils for whom they are intended and must be approved standards aligned materials. Please note that school districts must annually hold a public hearing and adopt a resolution certifying sufficiency of textbooks per EC 60119 as in previous years.**

Lottery

Please note that Lottery funding will be calculated in the same manner as prior years, with the exception that through 2012-13, the following programs will be funded based on 2007-08 ADA rather than the prior year ADA.

- Adult Education
- Regional Occupational Center and Programs (ROC/P)

Per the letter from CDE, dated May 4, 2010, the current projection for 2009-10 is \$110.00 per ADA (unrestricted) and \$16.00 per ADA (Prop. 20). Per the SSC dashboard, the rates for 2010-11 are estimated to be \$111.00 per ADA (unrestricted) and \$14.50 per ADA (Prop. 20).

On April 8, 2010, the Legislature passed AB142 (Chapter 13 / 2010) which requires that not less than 37% of the total annual revenues from the sale of lottery tickets to be distributed to education.

Property Taxes

For the 2010-11 fiscal year, the Orange County Auditor-Controller projects that secured property tax collections will decrease between (1.0%) and (3.0%). Supplemental taxes are projected to remain flat at 2009-10 levels.

Interest Yield Projections

The current interest yield projection for fiscal year 2009-10 is 1.315%. For 2010-11, the projected interest rate yield is 1.1%. These projections are provided by the Orange County Treasurer and are 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.

BASIC AID FAIR SHARE BUDGET REDUCTIONS

Section 37 of ABX4 2 reduces categorical funding for basic aid school districts in 2010-11 by the amount that is proportionate to the revenue limit reduction implemented for non-basic aid school districts. The amount of categorical reduction is equal to the basic aid school district's 2009-10 fiscal year total base revenue limit subject to the deficit factor, calculated as of the 2009-10 fiscal year certified second principal apportionment, multiplied by 5.81 percent. This amount shall be deducted from a basic aid school district's State categorical aid in 2010-11, exclusive of Special Education, After School Education and Safety Program, QEIA, and CCDF. The deduction can not violate the California Constitution (Section 6 of Article IX) requirement that the State provide at least \$120 per ADA, or \$2,400 per school agency, whichever is greater (E.C. 41975).

The May Revise updates are:

- 5.81 percent fair share reductions associated with the 2009-10 fiscal year will still be taken in 2010-11.
- Categorical funds are not subject to the continuous appropriation. Thus the timing of when the State will recover fair share funds from basic aid school districts are not known until a State budget gets adopted and categorical funds are appropriated. However, the CDE will take funds at the earliest possible opportunity. When preparing cash flows, assume funding from the state will not be distributed until the 5.81% fair share amount has been recovered.
- **The May Revise does not mention additional fair share reductions for basic aid school districts in 2010-11 (or additional reductions in 2010-11 to be taken in 2011-12). This is because the Department of Finance recognizes assessments have decreased and statewide property tax projections, including those of basic aid school districts, have been lowered. The May Revise is an updated proposal from the Governor and we should expect further details and potential changes during the Legislative process.**

CATEGORICAL FLEXIBILITY AND PUBLIC HEARING ON TIER III FLEXIBILITY

ABX4 2, Education Code Section, 42605, paragraph (c) (2) and (3) requires an annual public hearing on the proposed use of funds for the Tier III Categorical Programs. Paragraph 2 was amended to read,

*(2) As a condition of receipt of funds, the governing board of the school district or board of the county office of education, as appropriate, at a regularly scheduled open public hearing shall take testimony from the public, discuss, approve or disapprove the proposed use of funding, and make **explicit** for each of the budget items in paragraph (2) of subdivision (a) the purpose for which the funds will be used.*

The term “explicit” has now been added to the code, but is not defined in code! Attachment A is an analysis of this categorical flexibility public hearing requirement. **We recommend that school districts review the board agenda and minutes from their public hearing to ensure compliance with the new language. It is also strongly suggested that each school district immediately request that their independent auditor review the Board agenda and minutes to ensure compliance with the audit guide and the education code requirements.** If necessary, school districts may want to hold another public hearing on the Tier III categorical flexibility.

For 2010-11, categorical flexibility remains as currently enacted with no additional expansion or flexibility at this time. The negative COLA adjustment of 0.38% is applied to all State categorical programs including Special Education. Tier III flexibility continues through 2012-13.

Please note that school districts have until June 30, 2010, the flexibility to sweep restricted ending balances as of June 30, 2008. These include balances from Adult Education, Deferred Maintenance, Pupil Transportation Equipment, California High School Exit Exam (CAHSEE), Targeted Instructional Improvement Block Grant, and Instructional Materials. If the school district does not sweep these restricted program balances by June 30, 2010, the remaining funds must be expended in accordance with the original program requirement if not automatically unrestricted. The SACS software has provided for the accounting treatment for these sweeps.

AS A REMINDER:

The Enacted 2009-10 California State Budget and SBX3 4, Chapter 12, Statutes of 2009 authorized school districts to use funding received from the State for Tier III programs, for any educational purpose, to the extent permitted by federal law. The flexibility to use funds from these programs is authorized for five years from 2008-09 through 2012-13 by Education Code 42605.

School districts also need to watch for any legislation like SB1298 that could change the programs in the Tier III flexibility category.

Although fiscal year 2012-13 is some years off, school districts need to continually be aware of this sunset date and its impact, particularly if these funds are being utilized to mitigate any unrestricted general fund structural deficit. The Legislature has yet to comment on the use of these funds beyond the sunset date of June 30, 2013.

MANDATED COSTS

For several years, the Governor and Legislature has deferred funding of the mandated costs obligations. As a result the California School Boards Association (CSBA) and a coalition of school districts filed suit against the State in order to force the funding of the mandate or its elimination. In December 2008, the Superior Court in San Diego County ruled in favor of CSBA and the school districts. The State has filed an appeal and therefore deferrals could continue pending a decision by the Court of Appeals. A ruling on this appeal could take up to 18 months.

The Governor's Proposed 2010-11 State Budget cites the court's ruling and proposes to fund only two mandates.

- Chapter 1/1999 – High School Exit Exam
- Chapter 161/1993 – Interdistrict and Intradistrict Attendance

All other mandates are proposed for suspension except for Chapter 498/1983 – Science Graduation Requirements. Per the Governor, this Mandate is funded elsewhere in the budget and therefore, does not have to be reimbursed.

If the suspensions are enacted, the services for the mandates would not have to be provided by school districts.

The final list of mandates to be continued will not be finalized until a State budget is signed by the Governor. **Therefore, at this time it is recommended that school districts budget to continue the required services and budget revenue on a cash basis.**

Also note that the payback of the Special Education mandate equaling \$4.51 per 1999-00 P-2 ADA expires as of June 30, 2011. Revenue must not be budgeted beyond this date.

AB 851

AB 851, Chapter 374 signed by the Governor on October 11, 2009, makes adjustments to school district base revenue limits beginning with the 2010-11 fiscal year.

Beginning in 2010-11, the revenue limit add-ons for meals for the needy pupils and incentives to increase beginning teacher salaries will be converted to a combined per ADA amount using 2007-08 as the base year, with cost of living increases for the budget year. **In addition, the adjustments for the Orange County bankruptcy proceedings (EC Section 42238.21), and inter-district transfers (EC Section 42238.22) will be based on the funding received in 2007-08 fiscal year divided by the school district's average daily attendance (ADA) with increase by COLA in subsequent years. This adjustment will be implemented in 2010-11.**

The adjustment to the meals for the needy pupils was intended to be revenue neutral. However, there are winners and losers based on increases or decreases to case loads for these programs. Clean up legislation is required to ensure it is revenue neutral. AB 2366 is currently being heard in the Assembly. However, this bill only defers the implementation date for the meals for needy pupils add-on until 2013-14

CASH MANAGEMENT

Apportionment Deferrals

In addition to the deferrals that were enacted in 2009-10, ABX8 14 allows the State of California to defer up to \$2.5 billion dollars at three specific times within the 2010-11 fiscal year that must be repaid in full by

April 29, 2011. On March 30, 2010, pursuant to Government Code section 16326(a), the Controller, Treasurer, and Director of Finance specified that the plan is to defer the following payments:

- The July 2010 payment will be deferred for 60 days, in the amount of \$2.5 billion. The entire July advance principal apportionment payment will be deferred as a part of this \$2.5 billion along with approximately 31% of the prior year deferrals from February and June 2010.
- The October 2010 payment will be deferred as a part of this \$2.5 billion.
- The March 2011 payment will be deferred and paid on April 29, 2011, in the amount of \$2.5 billion.

However, ABX8 14 also gives the State Controller, State Treasurer, and Director of Finance the authority to shift the three deferrals to the prior month or delay until the subsequent month. Any authorized change would require a 30-day legislative notification.

Please refer to the tables below for a complete list of 2009-10 and 2010-11 deferrals. Note that approximately \$5 billion in payments are being delayed from one fiscal year to the next. Please refer to Attachment B for a graphic illustration of the apportionment deferrals.

K-12 Deferral Amount	2009-10 Timeframe
\$1.0 Billion	July 2009 to December 2009
\$1.5 Billion	August 2009 to October 2009
\$1.0 Billion	November 2009 to January 2010
\$2.0 Billion	February 2010 to July 2010
\$679 Million	April 2010 to August 2010
\$1.0 Billion	May 2010 to August 2010
\$1.4 Billion ²	June 2010 to July 2010
Total: \$8.6 Billion (\$5 Billion across fiscal years)	

K-12 Deferral Amount	2010-11 Timeframe
\$2.5 Billion ³	July 2010 to September 2010
\$2.5 Billion	October 2010 to January 2011
\$2.0 Billion	February 2011 to July 2011
\$2.5 Billion	March 2011 to April 2011
\$679 Million	April 2011 to August 2011
\$1.0 Billion	May 2011 to August 2011
\$1.4 Billion ⁴	June 2011 to July 2011
Total: \$12.6 Billion (\$5 Billion across fiscal years)	

² 100% of the June P-2 Principal Apportionment is deferred to July (estimated to be \$1.4 billion).

³ This includes the deferral of 31% of the 2009-10 P-2 payment, which will be paid in September 2010; LEA's should receive 69% of their 2009-10 P-2 payment in July 2010.

⁴ 100% of the June P-2 Principal Apportionment is deferred to July (estimated to be \$1.4 billion).

Also note that changes in property valuations can significantly affect cash flow. Also, the change in status from a revenue limit school district to a basic aid school district will impact the receipt of cash from monthly to primarily in December and April.

Due to the significant apportionment deferrals, we are expecting to receive a 2010-11 cash flow projection with the July 1 Adopted Budget submission.

Apportionment Schedule

In addition to deferrals, ABX4 16 has significantly changed the schedule for the principal apportionment and the special purpose apportionment and added a schedule for Education Code (EC) Section 42605 budget items (Tier III Categorical Programs). Please refer to the following table for an example of the change in apportionment schedule with the deferrals described in the section above (note that a negative amount includes funds being deferred to a different timeframe, a positive amount shows funds being restored from a prior deferral). ABX4 16 Section 3 also specifies an apportionment schedule for EC 42605 budget items (Tier III Categorical Programs). In light of the reduced and deferred apportionments and change in timing of distribution of funds from the State, a great deal of emphasis must be placed on cash flow analysis and monitoring.

Principal Apportionment Monthly Payment Schedule Comparison										
Estimated 2010-11 New AB/SB X8 5 Schedule***										
Month		2009-10 (SBX4 -16) Monthly Payment Schedule	2009-10 Monthly Payment Schedule with Deferrals**	2009-10 Monthly % Shortfall/ Excess	2009-10 Cumulative % Shortfall/ Excess	Monthly Payment Schedule with Deferrals	Monthly % Shortfall/ Excess	Cumulative % Shortfall/ Excess	Change in Cumulative % Shortfall/ Excess	Prior Year P-2 Appt further deferred
July	**	5.0%	1.0%	-4.0%	-4.0%	0.0%	-5.0%	-5.0%	-1.0%	12.0%
August	**	5.0%	0.0%	-5.0%	-9.0%	5.0%	0.0%	-5.0%	4.0%	7.5%
September	**	9.0%	9.0%	0.0%	-9.0%	14.0%	5.0%	0.0%	9.0%	5.8%
October		9.0%	14.0%	5.0%	-4.0%	0.0%	-9.0%	-9.0%	-5.0%	
November		9.0%	4.5%	-4.5%	-8.5%	9.0%	0.0%	-9.0%	-0.5%	
December		9.0%	13.0%	4.0%	-4.5%	9.0%	0.0%	-9.0%	-4.5%	
January		9.0%	13.5%	4.5%	0.0%	18.0%	9.0%	0.0%	0.0%	
February		9.0%	0.2%	-8.8%	-8.8%	0.2%	-8.8%	-8.8%	0.0%	
March		9.0%	9.0%	0.0%	-8.8%	0.0%	-9.0%	-17.8%	-9.0%	
April		9.0%	6.0%	-3.0%	-11.8%	15.0%	6.0%	-11.8%	0.0%	
May		9.0%	4.5%	-4.5%	-16.3%	4.5%	-4.5%	-16.3%	0.0%	
June		9.0%	0.0%	-9.0%	-25.3%	0.0%	-9.0%	-25.3%	0.0%	
Subsequent Year										
July			17.8%		-7.5%	17.8%		-7.5%	0.0%	
August			7.5%		0.0%	7.5%		0.0%	0.0%	
* Does not include past deferrals										
**Does not include July 09 overpayment % and subsequent adjustments in Oct. and Dec.										
***Disregards \$2.5 Billion Dollar Limit										

We have always stressed the importance of maintaining appropriate reserves. **These cash management challenges make it even more imperative that we consider reserve levels greater than the minimums required within the State's Criteria and Standards.** Reserves are especially critical in order to meet cash flow needs that guarantee the ability to adequately meet payrolls and other obligations.

RESERVE FOR ECONOMIC UNCERTAINTIES

The revised 2009-10 Enacted Budget lowers the minimum reserve requirement levels for economic uncertainties to 1/3 the percentage level adopted by the State Board as of May 1, 2009. However, school districts are required to make progress in the 2010-11 fiscal year to return to compliance with the specified standards and criteria adopted by the State Board. ABX4 2 also restores the requirement for the 2011-12 fiscal year to the percentage adopted by the State Board as of May 1, 2009. **We believe that the percentages established in the Criteria and Standards for reserves prior to the current Enacted Budget are the BARE MINIMUM.** Moreover, once the minimum reserve levels are reduced, it would take budget reductions of twice the amount of the lowered reserve levels to fully restore the reserve by 2011-12.

Basic aid districts are advised to maintain reserves much greater than the State required minimum because they do not have the prior year ADA protection provided to school districts under Education Code 42238.5, whereby revenue limit funding is based on ADA for either the current or prior fiscal year, whichever is greater.

NEGOTIATIONS

When considering a multi-year contract, school districts need to be very flexible and have appropriate contingency language, such as basing compensation increases on “funded COLA” or “effective COLA”. Also recognize that there may be different COLAs and deficits for revenue limits versus categorical programs and this should be considered during negotiations.

It is also important to note that several of the Governor’s proposals could impact other contract language in addition to COLA language. School districts need to consider this as they negotiate changes to collective bargaining agreements.

SUMMARY

We recognize that these are extraordinary economic times and it is difficult to gauge the future. School district budgets should be managed with a great degree of conservatism over the next few years. In these times of great economic and budgetary uncertainty, school districts need reserves that are much greater than the minimum.

We understand how difficult it is for school districts to deal with the increased pressures, significantly reduced funding, apportionment deferrals, and the uncertainty associated with a volatile economy. It is important that school districts be proactive through developing contingency plans that allow the most flexibility possible. School districts are advised to follow through with planned budget reductions for 2010-11 and begin planning now for necessary reductions in 2011-12 and 2012-13. While planning necessary budget reductions for 2011-12 and 2012-13, school districts can also develop program or expenditure restoration priorities if more revenues become available.



Attachment A

September 23, 2009

To: Assistant Superintendents, Business Services
Directors, Business Services

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

Subject: Tier 3 Categorical Flexibility Requirements

As you know, the Budget Act of 2009 granted categorical flexibility to local educational agencies (LEAs) for fiscal years 2008-09 through 2012-13. There are two requirements that LEAs should be aware of regarding the flexibility provisions. The first requirement is that the governing board of each LEA is to hold a public hearing as a condition of the receipt of funds. The second requirement is that LEAs must report the flexibility expenditures with the appropriate Standardized Account Code Structure (SACS) function codes. Please see below for additional information about the two requirements listed above.

Public Hearing Requirement

As a condition of receipt of funds, the governing board of the school district or board of the county office of education, as appropriate, at a regularly scheduled open public hearing shall take testimony from the public, discuss, approve or disapprove the proposed use of funding, and make **explicit** for each of the budget items in Education Code Section 42605(a)(2) the purposes for which the funds will be used. We have attached a sample Board resolution for the categorical flexibility public hearing and a template that lists Tier 3 categorical programs, amounts, and uses of funds.

It is important to note that the public hearing requirement has been included in the proposed 2009-10 Audit Guide regulations. For 2009-10, your independent auditor will review minutes or other records of the governing board that document that the governing board held such a public hearing or hearings before determining the use of each flexible funding source. The public hearing may have been held in the prior year.

SACS Reporting Requirement

Using the SACS reporting process, a local educational agency shall report expenditures of funds pursuant Education Code Section 42605(a)(2) by using the appropriate function codes to indicate the activities for which these funds are expended. The California Department of Education shall collect and provide this information to the Department of Finance and the appropriate policy and budget committees of the Legislature by April 15, 2010, and annually thereafter on April 15 until, and including, April 15, 2014.

If you have any questions or concerns about this information, please call me at (714) 966-4229.

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LYNN APRIL HARTLINE
Deputy Superintendent

JOHN L. NELSON
Associate Superintendent

ORANGE COUNTY BOARD OF EDUCATION

JOHN W. BEDELL, PH.D.

ALEXANDRIA CORONADO, D.M.A.

ELIZABETH PARKER

LONG PHAM, PH.D.

KEN L. WILLIAMS, D.O.

RESOLUTION # _____

**RESOLUTION OF THE GOVERNING BOARD OF THE
_____ SCHOOL DISTRICT
CATEGORICAL FLEXIBILITY FUNDS**

On motion of member _____, seconded by member _____, the following resolution is adopted.

WHEREAS, the State Adopted Budgets of 2008-09 and 2009-10 (SBX3 4) provides "Flexibility" for the use of certain Categorical Program Funds to be used in responses to the State fiscal crisis, and

WHEREAS, the Flexibility legislation requires the Governing Board, at a regularly scheduled open public hearing to take testimony from the public and shall discuss and approve or disapprove the proposed use of funding, and

WHEREAS, the attached schedule reflects the estimated amount of Flexibility funds to be used in the General Fund for and educational purpose as reflected in the various budgets which has been adopted by the Board for the 2010-11 fiscal year,

NOW THEREFORE, BE IT RESOLVED AND ORDERED, the Board approves the use of the Flexibility Funds as required by the Budget Act of 2009.

PASSED AND ADOPTED by the Governing Board of the _____ School District, County of Orange, State of California, this _____ day of _____ 2010, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

STATE OF CALIFORNIA)
COUNTY OF ORANGE)

I, _____, Secretary of the _____ School District Governing Board, do hereby certify that the foregoing is a full, true, and correct copy of a resolution passed and adopted by the Board at a regularly scheduled and conducted meeting held on said date, which resolution is on file in office of said Board.

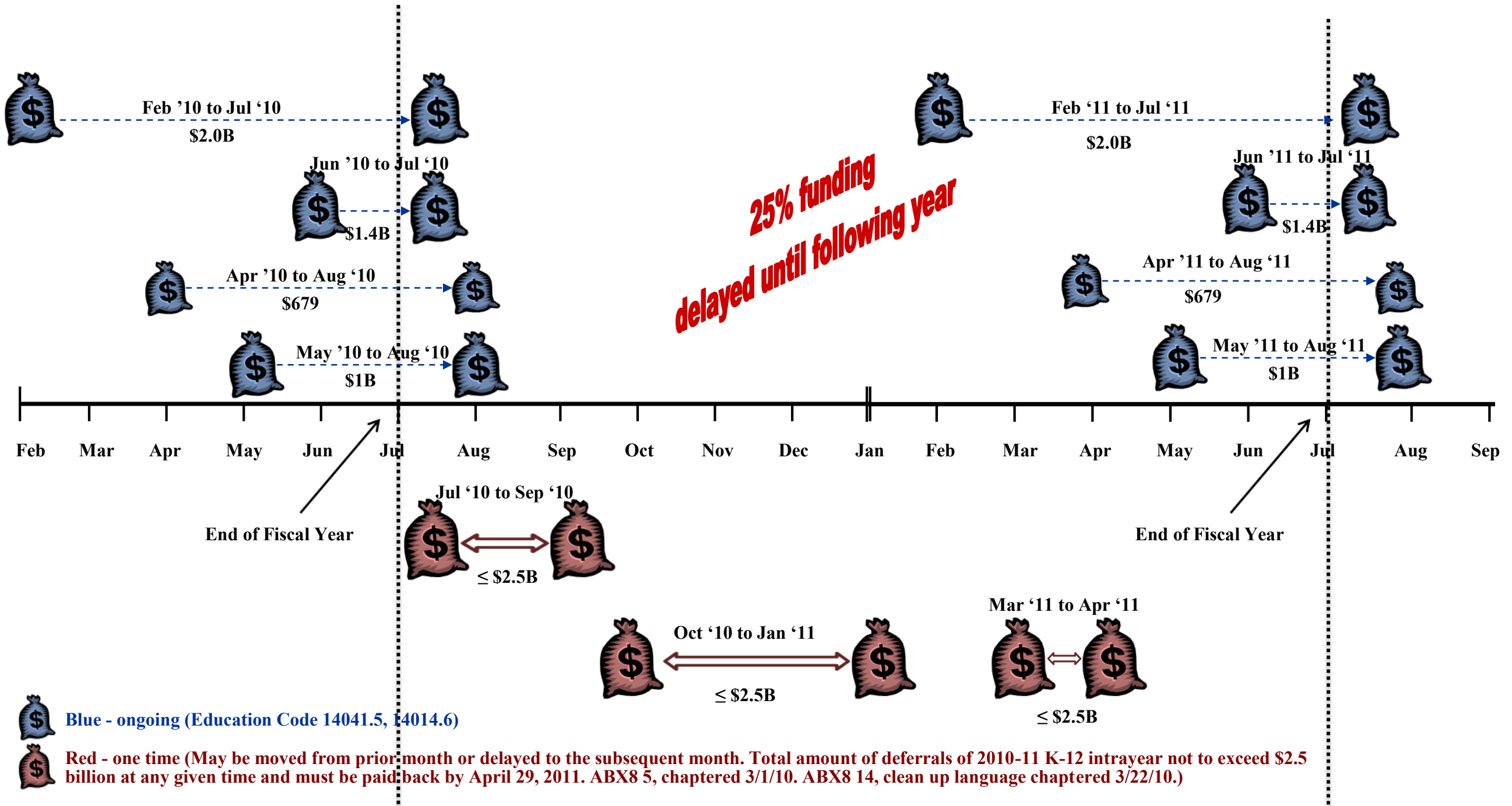
(Name of Secretary)
Secretary of Governing Board
_____ School District

2010-11 Categorical Program Budget Flexibility

<u>Tier 3 Categorical Programs</u>	<u>Amounts</u>	<u>Use of Funds</u>
Total Flexibility Transfers		

Delayed Funding for Schools

Attachment B





WILLIAM M. HABERMEHL
County Superintendent of Schools

Attachment C

In submitting the 2010-11 Adopted Budget and an implementation plan for budget reductions in 2010-11, the Board understands its fiduciary responsibility to maintain fiscal solvency for the current and subsequent two fiscal years. It is recognized that if the Governor's May 2010 Revision is enacted as proposed, or if the fiscal condition further deteriorates, the district will implement \$(_____) in ongoing budget reductions in 2011-12 and an additional \$(_____) reductions in 2012-13 to maintain fiscal solvency. It is further recognized that the district will submit a detailed list of Board approved ongoing budget reductions for 2011-12 with the 2010-11 First Interim Report.

2010 SSC School District and County Office Financial Projection Dartboard

Governor's 2010-11 May Revision

This version of SSC's Financial Projection Dartboard is based on the Governor's 2010-11 May Revision. We have updated the COLA, CPI, and ten-year T-bill factors per the latest economic forecasts. 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.

Factor	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Statutory COLA (use for K-12 and COE Revenue Limits)	4.25%	-0.39%	2.10% ¹	2.40%	2.70%	3.00%
Revenue Limit Deficits:						
Eliminates COLA	.90785	.90785	.90785	.90785	.90785	.90785
Further RL Cut	.89932	.89932	.89932	.89932	.89932	.89932
Total Deficit %	18.355%	18.355%	18.355%	18.355%	18.355%	18.355%
Net Revenue Limit Change: K-12	-7.64%	-0.39%	2.10%	2.40%	2.70%	3.00%
Revenue Limit Deficits—COEs:						
Eliminates COLA	.90785	.90785	.90785	.90785	.90785	.90785
Further RL Cut	.89639	.89639	.89639	.89639	.89639	.89639
Total Deficit %	18.621%	18.621%	18.621%	18.621%	18.621%	18.621%
Net Revenue Limit Change: COEs	-7.95%	-0.39%	2.10%	2.40%	2.70%	3.00%
Other Revenue Limit Adjustments	-\$252.99 ² per ADA	3.85% Deficit Applied to Undeficit Base RL	3.85% Deficit Applied to Undeficit Base RL	3.85% Deficit Applied to Undeficit Base RL	3.85% Deficit Applied to Undeficit Base RL	3.85% Deficit Applied to Undeficit Base RL
Special Education COLA (on state and local share only)	0.00%	-0.38%	2.10%	2.40%	2.70%	3.00%
State Categorical Funding (including adult education and ROC/P) ³						
Tier I	0.00%	N/A ³	2.10%	2.40%	2.70%	3.00%
Tier II	-4.46%	-0.38%	2.10%	2.40%	2.70%	3.00%
Tier III	-4.46%	-0.38%	2.10%	2.40%	2.70%	3.00%
California CPI	0.80%	2.00%	2.40%	2.70%	3.00%	3.20%
California Lottery	Base	\$111.00	\$111.00	\$111.00	\$111.00	\$111.00
	Proposition 20	\$14.50	\$14.50	\$14.50	\$14.50	\$14.50
Interest Rate for Ten-Year Treasuries	3.70%	4.00%	4.40%	4.60%	4.80%	5.00%

ESTIMATED STATEWIDE AVERAGE BASE REVENUE LIMITS PER ADA "UNDEFICITED"

Year	Elementary	High School	Unified
2009-10 Statewide Average (est.)	\$6,132	\$7,369	\$6,411
2010-11 Inflation Increase @ -0.39% COLA	-\$24	-\$29	-\$25
2010-11 Statewide Average (est.)	\$6,108	\$7,340	\$6,386

2010-11 BUDGET ACT ESTIMATED CHARTER SCHOOL RATES

	K-3	4-6	7-8	9-12
General Purpose Block Grant (will change at each apportionment)	\$5,005 - \$236 ³	\$5,081 - \$240 ³	\$5,227 - \$247 ³	\$6,067 - \$286 ³
Categorical Block Grant (est.) ⁴	\$399	\$399	\$399	\$399
Total	\$5,168	\$5,240	\$5,379	\$6,180

¹ While a positive statutory COLA is projected for 2011-12, the state's ability to fund it is suspect. Districts should have a contingency plan if the state decides not to fund this COLA percentage.

² The 2009 Budget Revision did not include the 11.428% deficit for 2008-09, which was proposed in the May Revision. Instead, the Budget Revision requires school districts, COEs, and charter schools to reduce revenue limits by \$252.99 per ADA on a one-time basis in 2009-10.

³ These percentages are based on the amount of cuts from prior-year funding. The May Revision leaves the -0.38% from the Governor's January Budget unchanged. In 2010-11, Tier I programs have various funding rates.

⁴ The Charter School Categorical Block Grant rates do not include Economic Impact Aid funding, which is provided separately.