



**ORANGE COUNTY  
DEPARTMENT  
OF EDUCATION**

200 KALMUS DRIVE  
P.O. BOX 9050  
COSTA MESA, CA  
92628-9050

(714) 966-4000  
FAX (714) 662-3570  
[www.ocde.us](http://www.ocde.us)

**WILLIAM M. HABERMEHL**  
County Superintendent  
of Schools

LYNN APRIL HARTLINE  
Deputy Superintendent

JOHN L. NELSON  
Associate Superintendent

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November 1, 2010

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

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

Subject: **2010-11 Enacted State Budget & First Interim Advisory**

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. The attached advisory provides guidance for the development of school districts' First Interim Reports and multi-year projections and is based upon the 2010-11 Enacted State Budget and subsequent legislation.

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

cc: Superintendents  
Dari Barzel, Moody's Investors Service  
Jean Buckley, Tamalpais Advisors, Inc.  
Kevin Hale, Orrick, Herrington & Sutcliffe LLP  
Arto Becker, Hawkins, Delafield & Wood LLP  
Dawn Vincent, Stone & Youngberg LLC  
David Casnocha, Stradling Yocca Carlson & Rauth

Enclosures

# **2010-11 Enacted State Budget & First Interim Advisory**

## **November 1, 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 First Interim Report and related multi-year projections (MYPs) and reflects the 2010-11 Enacted State Budget.

SB 870 Chapter 712, statutes of 2010 was signed on October 8, 2010, making this budget the most delayed State budget in California's history. The Governor and Legislature continue to acknowledge that the State is in a serious fiscal crisis. The 2010-11 Enacted State Budget has attempted to partially mitigate this crisis by closing an estimated budget gap of \$19.3 billion. This is accomplished through \$7.8 billion in expenditure reductions, \$5.4 billion in additional federal revenues, \$3.3 billion in revenue-related solutions, and \$2.7 billion in funding shifts. The Enacted State Budget also added solutions which include a \$1.7 billion apportionment deferral to be repaid in 2011-12. The Governor exercised his line-item veto authority to reduce General Fund spending by an additional \$963 million, raising the reserve level from \$375 million to \$1.3 billion. Included in the vetoes are the elimination of the CalWORKs Stage 3 (\$256 million) and the funding for the AB 3632 mandate for mental health services for special education students (\$133 million) which will have a negative impact on school districts. No new taxes are being proposed.

In order to balance the 2010-11 Enacted State Budget, Proposition 98 was suspended per SB 851 Chapter 715, statutes of 2010. The Proposition 98 Guarantee is reduced by \$4.1 billion from the estimated minimum funding level of \$53.8 billion to \$49.7 billion. The \$4.1 billion reduction is added to the Proposition 98 Maintenance Factor. This brings the state Maintenance Factor to approximately \$9.5 billion at the end of 2010-11. However, there is concern about the accuracy of the stated maintenance factor of \$9.5 billion and when the settlement of the maintenance factor will be paid to education.

Even with the suspension of Proposition 98, it is important that we acknowledge that education fared much better in the 2010-11 Enacted State Budget from the Governor's 2010 May Revise. An additional \$2.8 billion has been added to education spending over the May Revise. This budget eliminates the 3.85% revenue limit cut and the negative 0.39% COLA, resulting in approximately 5.17% more revenue limit funding for 2010-11 over the amount for 2009-10. This equates to about \$275 per student. Additionally, \$90 million is provided for current year mandate costs and \$210 million for prior year claims based on an equal per-student basis. There is no supplanting with Federal Jobs Bill funding.

Education is very appreciative of the increased funding for 2010-11. However, there is reason to be extremely cautious with this budget. There are several significant factors that warrant such caution:

- This budget was not based on a robust economic recovery, but is supported by political deals. Some of the assumptions are aggressive and optimistic. For example, \$1.4 billion was added based on the Legislative Analyst's Office's (LAO) more optimistic revenue forecasts; there is \$3.6 billion more in federal funds as a targeted result of re-structuring some State programs in order to generate more federal funds; there are targeted expenditure reductions that have been in past budgets and those reductions were not accomplished such as reducing medical services in prisons. Additionally, one third of the fiscal year has passed and the estimates for expenditure reductions were not adjusted for the new timeframe.

- There are some signs of a U.S. economic recovery, but California lags behind. The economy is the key to financial recovery for the State. Current projections by UCLA's Anderson Forecast suggest that the economy will remain sluggish for the next several years; although some improvement is projected for 2011.
- The ongoing gap between revenues and expenditures has gotten worse with the 2010-11 Budget. There is a greater reliance on one-time revenues.
- Due to the expiration of the temporary sales tax increase in 2011, one-time solutions for 2010-11 and other optimistic budget projections, Moody's, the largest credit rating agency, is projecting a \$12 billion deficit in the 2011-12 budget.
- California's unemployment is 12.4% compared to 9.6% for the US as a whole.
- The State Treasurer released the 2010 Debt Affordability Report which reflects that California continues to have the lowest GO bond rating of any state. These could impact future sales of RANs which could result in more deferrals to education funding.
- 2010 is a major election year. Both Gubernatorial candidates face a challenge in resolving the state fiscal crisis in a relatively short period of time. Both candidates propose restructuring of school funding and educational reform. The current economy can't support these platforms. Huge challenges face the new Governor and new Legislature.
- The new administration will have challenges similar to those faced in 2007-08. That State budget was severely unbalanced and contained overly optimistic revenue projections and expenditure reductions. The result was significant mid-year cuts to education. Even if there are no mid-year reductions in 2010-11, we must remember that education is still receiving 10% less funding in 2010-11 than received in 2007-08 and there is a deficit factor, including lost COLAs, of almost 18%.
- ARRA funds are one-time revenues and must be spent by September 30, 2011. Additionally, the State is no longer impacted by the federal maintenance of effort requirements as of June 30, 2011.
- The Federal Jobs bill provides additional funding, but it provides only one-time revenues and must be spent by September 30, 2012.
- K-3 Class Size Reduction (CSR) flexibility sunsets June 30, 2012. The Tier III flexibility sunsets June 30, 2013 including the provision to reduce the instructional year to 175 days. None of these were addressed in this budget.

## 2010-11 ENACTED BUDGET

### Revenue Limit and COLAs

This budget eliminates the 3.85% revenue limit cut and the negative 0.39% COLA, resulting in approximately 5.17% more revenue limit funding for 2010-11 over the amount for 2009-10.

The 2010-11 Enacted State Budget specifies the deficit factor for revenue limits for 2010-11 as defined in the following table.

|  | 2010-11 Enacted State Budget |
|--|------------------------------|
| Statutory Cost of Living Adjustment (COLA) | (0.39%)                      |
| K-12 Deficit                               | 17.963% (0.82037)            |
| County Office Deficit                      | 18.250% (0.81750)            |

The (0.39%) COLA translates into the following statewide average base revenue limit amount per ADA:

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

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 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.<sup>1</sup> **This reduction is not continued in 2010-11.**

For 2010-11, the Governor's May Revise proposed an ongoing cut of \$1.5 billion. The Department of Finance (DOF) proposed implementing this cut by applying a 3.85% reduction to each school district's (including basic aid school districts) undeficitated base revenue limit. This equaled approximately \$235 per ADA for elementary districts; \$283 per ADA for high school districts, and \$246 per ADA for unified school districts and would have been an ongoing reduction. The 2010-11 Enacted State Budget did not implement this proposed reduction. This equals an approximate 5.17% change in the funded revenue limit for an average unified school district from 2009-10 to 2010-11.

**We recommend that school districts use the School Services of California (SSC) Dartboard (see Attachment A), which was updated based on the 2010-11 Enacted State Budget in the development of the 2010-11 First Interim Report and the related MYPs for 2011-12 and 2012-13. We strongly agree with SSC's Dartboard line entitled, "SSC's Recommended Planning Revenue Limit COLA." This recommendation is to use a 0% COLA for 2011-12 in lieu of the statutory COLA of 1.70%. Therefore, it is essential that school districts budgeting for a 1.70% Statutory COLA in 2011-12 should have a contingency plan in place in the event that the COLA is not funded. There**

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<sup>1</sup> 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 2009-10, \$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.

**is still concern about the COLAs for 2012-13 and beyond. However, the SSC Dartboard is the best data at this time.**

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. **This reduction is not continued in 2010-11.**

In recognition of the drop in assessed values and decreases in Statewide property tax projections, the Enacted State Budget does not propose any additional reductions for basic aid school district funding beyond 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. Basic aid districts must continue to budget for this reduction in the current year.**

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 0% COLA for 2010-11. Growth is funded at \$465.44 per 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 had apportioned these 2009-10 funds and then recaptured the funds pending authorization by the Legislature to disburse said funds. On September 27, 2010, AB 184 (Chapter 403/2010) was signed by the Governor as an urgency statute and therefore became effective immediately. AB 184 authorizes the SDA for both 2009-10 and 2010-11. The 2010-11 SDA appropriation was also included in the 2010-11 Enacted State Budget. The SDA does sunset on January 1, 2012 and becomes inapplicable on July 1, 2011. The intent of the Legislature was to authorize the SDA funding only through 2010-11 and to review the SDA funding beyond 2010-11 in a future Legislative session. It is recommended that school districts not budget for the SDA funding beyond 2010-11. School districts should discuss this with their SELPA and develop strategies for this loss of funding in their MYPs.

Another special education issue of critical importance is the veto of AB 3632 (Chapter 1747/1984) funding of \$133 million. This legislation mandated county mental health agencies to provide services to children with disabilities and the funding was provided through county offices of education to county mental health agencies. On October 8, 2010, Governor Schwarzenegger used his line item veto authority to eliminate \$133 million for mental health services for special education students. In doing so, the Governor stated that the state mandate requiring county mental health agencies to provide mental health services to special education students (AB 3632, Ch. 1747, Stats.1984; Ch. 654, Stats.1996) is suspended. This action is likely to undergo legal challenges given that the law itself has not been repealed. Moreover, federal law (the individuals with Disabilities Education Act) requires that mental health services be provided to special education students who need such services. **This could mean that counties may no longer be responsible for providing these mental health services, and the responsibility may fall back on school districts as the "payer of last resort for services specified in a student's Individualized Education Program (IEP). The timing or the manner in which this sweeping change may occur is unknown. Please be aware that this action is likely to have a significant impact on**

**special education students with mental health needs.” School districts should discuss this with their SELPA and fiscally plan for this action.**

**LATE BREAKING NEWS:** On October 29, 2010, State Superintendent of Public Instruction Jack O’Connell announced that the California Department of Education (CDE) will continue to allocate \$76 million in available federal funds to maintain essential mental health services for students with severe disabilities despite Governor Schwarzenegger’s unilateral suspension of mental health services for students and his line-item veto of \$133 million in the general fund for services provided by county mental health offices. **There are still many unanswered questions about the distribution of these funds. More information will be forthcoming in the next few weeks. School districts need to work with their SELPA on resolutions.**

## **State Fiscal Stabilization Funds (SFSF)**

K-12 schools are entitled to \$3.1 billion under the SFSF, with \$2.9 billion already received and currently distributed to K-12 education for a total Phase I allocation of \$2.9 billion (approximately \$500 per student).

The last 10% of the SFSF funds was received by California. The CDE expects to determine the final per ADA allocation around December, 2010 and apportion the funds in late January 2011. The allocation is estimated to be around \$40 to \$50 per ADA.

**School districts should not budget the remaining additional SFSF allocations until CDE notifies school districts of the actual cash apportionment to be received.**

**Also note that the federal government plans to audit ARRA expenditures. It is not known at this time, which school districts or COEs will be audited. As such, all should prepare for an audit by maintaining adequate records and documenting decisions made for the use of the ARRA funds.**

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

## **Federal Jobs Funding**

On August 10, 2010, the House of Representatives (H.R.) 1586 was passed. The Federal Education Jobs Fund program, a component of the Education Jobs and Medicaid Assistance Act of 2010 (PL 111-226), provides \$1.2 billion to California to be used to save or create kindergarten through grade twelve (K-12) jobs for the 2010-11 school year. Jobs funded under this program include those that provide educational and related services for early childhood, elementary and secondary education.

The California Department of Education (CDE) has posted preliminary calculations on how much local educational agencies would receive under the federal Education Jobs Fund at <http://www.cde.ca.gov/fq/aa/ca/edjobsfund.asp>.

The preliminary entitlements are based on the funding formula provided in Senate Bill (SB) 847, Chapter 220/2010. Pursuant to SB 847, local educational agency (LEA) entitlements will be based on each LEA’s proportionate share of revenue limit and charter school general purpose funding in 2010-11 as determined at the Second Principal Apportionment. Preliminary entitlements were calculated using 2009-10 Second Principal Apportionment data. An LEA may receive an allocation equal to 90 percent of its preliminary entitlement. These entitlements will be adjusted after the 2010-11 Second Principal Apportionment is calculated in June 2011. Preliminary entitlements for charter schools that began operation in the 2010-11 fiscal year will be calculated after the report of actual attendance for the first 20 school days is submitted to the CDE.

LEAs that have applied for a State Fiscal Stabilization Fund (SFSF) grant will automatically be eligible for an Education Jobs Fund grant and need not submit a separate application. LEAs that have not applied for a SFSF grant (including new direct funded charter schools or charter schools that have changed their

fund type from local to direct since 2008-09) can apply for Education Jobs Funds by completing the SFSP application.

Some key provisions of the Federal Jobs Funding are:

- The funds are one-time only and should be used for one-time expenditures.
- The funding may be used to support educational programs and related services for early childhood, elementary, and secondary education.
- Specifically, the funding is to go toward salaries and benefits and other expenses associated with rehiring staff, retaining existing employees, and hiring new staff to provide school level educational related services.
- The funding cannot be used for general administrative expenditures, outside contractors, equipment, utilities, renovations, transportation and other like expenditures.
- Funds may not be spent for expenditures prior to August 10, 2010.
- All funds must be spent by September 30, 2012.
- These funds are subject to reporting and audit requirements. It is critical to keep documentation including decisions made for the use of these funds.
- The CDE has assigned Resource Code 3205 to this program.

For more information about the Education Jobs Fund program, go to:

<http://www.cde.ca.gov/ar/ej/index.asp> or [www.sscal.com](http://www.sscal.com).

For a webcast on the Federal Funding for Education Jobs, go to:

<http://www4.scoe.net/ims/webcasts/cf/index.cfm?fuseaction=archivedDetail&eventID=115>

## Quality Education Investment Act of 2006 (QEIA)

The 2010-11 Enacted State Budget provides \$420 million in funding outside of Proposition 98 for QEIA for 2010-11. This funding is from one-time sources. Therefore, for 2011-12 and every year beyond, additional sources of funds will need to be identified in order to continue QEIA at its current funding commitment. 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 Enacted State Budget has not proposed any additional flexibility for CSR for 2010-11. School districts will receive \$1,071 per pupil for a full day and \$535 per pupil for a half day with the elimination 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.

The following SSC website lists the 1964 average class size data for all school districts: <http://sscal.com/download.cfm?id=12>

If a school district exceeds these limits, there will be a loss of the revenue limit funding for every student over these limits. Waivers may be available. Please let our office know if your district plans on applying to the State Board of Education for a class size waiver.

The 2010-11 Enacted State Budget has added CSR to the continuous appropriations language for 2010-11 only. Therefore, any funding required for CSR will be made for 2010-11 without any further legislative action.

**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 fiscal year, school districts must return to 20:1 class sizes in order to receive the incentive funding. Also, remember that if a school district currently participates in CSR and then elects to withdraw from the program, they are not eligible to re-enter the CSR program.**

## Transportation

Home to School Transportation and Special Education Transportation funding was 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 eliminated and therefore, the funded COLA is 0%. In other words, the funding for 2010-11 remains the same as 2009-10.**

## Child Care

The Governor's May Revise had proposed cutting more than \$1.2 billion in general fund support from the state's child care programs. The 2010-11 Enacted State Budget does not propose elimination of any child care programs and thus the Governor's decision was not upheld by the Legislature. **(Therefore, the number of state funded child care slots will be the same number in 2010-11 as funded in 2009-10.)**

While the Enacted Budget did not eliminate child care programs, there were some changes:

- Caps funding for alternative payment program provider child care placements at 80% of the 2005 Regional Market Rate, an 11% reduction from the 90% cap in place prior to 2010-11.
- Reduces the administrative cost limit from 19% to 17.5% for alternative payment provider contracts.
- Limits center-based reserves to 5% of the contract amount, and requires that in 2010-11 reserves in excess of this limit be first expended for services to families and credited toward meeting the 2010-11 contract service requirements.
- Reduces support for Local Planning Councils by 50%, for a savings of \$3.3 million.

The new cap on provider rates is effective November 1 and the reduced administrative cost percentage is effective as of October 1.

In addition to the changes enacted by the Legislature, **the Governor vetoed \$256 million of child care funding to eliminate state support for CalWORKS Stage 3 child care services. Stage 3 child care services were supposed to end on October 31. However, the Governor's veto was challenged in**



**court and the Superior Court of California has ordered that CalWORKS Stage 3 Child Care services be continued until November 5.**

The CDE Child Development Division has issued a series of Management Bulletins that provide detailed information about the implementation of the Governor's stage 3 veto and the other changes enacted with this budget that were described above. CDE Management Bulletins can be found at <http://www.cde.ca.gov/sp/cd/ci/allmbs.asp>.

The 2010-11 Enacted State Budget does include a reduction for license-exempt child care programs. New rate information will be forthcoming from the state.

## **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)

**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. The Lottery Commission projects sales of \$3.5 billion in 2010-11 of which \$1.1 billion will go to education.**

**The current projection for 2010-11 is \$112.50 per ADA (unrestricted) and \$17.50 per ADA (Prop. 20).**

## **Property Taxes**

The initial 2010-11 secured tax levy for your school district is available at the County Auditor-Controller's web site: <http://www.ttc.ocgov.com/acledger/index.asp>. As is normal at this time of the year, the tax charge for supplemental property tax (only applicable to revenue limit districts) does not reflect a complete year. However, total supplemental taxes are estimated to be similar to what was apportioned in 2009-10. Not included at this time are your district's shares of the homeowners' exemption subvention and the state assessed property roll.

## **Interest Yield Projections**

The current interest yield projection for fiscal year 2010-11 is 1.2%. 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).

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 is not known until 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 2010-11 Enacted State Budget does not mention additional fair share reductions for basic aid school districts beyond 2010-11 (or additional reductions in 2010-11 to be taken in 2011-12).**

## CATEGORICAL 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 D 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.**

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%) was not enacted and therefore, a 0% COLA is applied to all State categorical programs including Special Education. Tier III flexibility continues through 2012-13.

Please note that school districts had until June 30, 2010, the ability 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 did 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. As of 2010-11, the SACS software no longer provides resource codes for these programs. If a school district did not sweep these balances by June 30, 2010, locally restricted resource codes must be used.

### **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 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 2010-11 Enacted State Budget provides only \$300 million in one-time funds for reimbursement of mandated costs. \$90 million is targeted for 2010-11 claims and \$210 million is targeted for partial payment of the oldest prior-year claims and will be allocated on an equal amount per ADA. Additionally, provisions in the 2010-11 Enacted State Budget dismiss the mandated cost reimbursement requirement associated with two mandates.

- Behavioral Intervention Plans (BIP) – BIP language states that, if activities are state reimbursable mandates then state funding provided for purposes of special education in the annual Budget Act shall first be used to directly offset any mandate costs.
- Science Graduation Requirements (SGR) – SGR language states costs related to the salaries and benefits of teachers incurred by a school district shall be offset by the amount of state funding apportioned to the district in the annual Budget Act.

It is likely that litigation will be filed regarding the elimination of these two mandates. **In addition, nine other mandates are suspended for 2010-11 and no state funding will be provided for any services for these programs.** They are:

- Removal of Chemicals
- Pupil Residency Verification and Appeals
- School Bus Safety I and II
- Physical Education Reports
- Scoliosis Screening
- Health Benefits for Survivors of Peace Officers and Firefighters
- Law Enforcement Sexual Harassment Training
- County Treasury Withdrawals
- Grand Jury Proceedings

With the enactment of these suspensions, the services for the mandates do not have to legally be provided by school districts.

**At this time it is recommended that school districts budget mandated cost revenues on a cash basis.**

**Also note that the payback of the Special Education mandate equaling \$4.51 per 1999/2000 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 added for 2008-09 and 2009-10.

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 was intended to partially fix the issue, but the bill did not make it through the legislative session.

## **CASH MANAGEMENT**

### **Intra-Year 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 a plan, which was revised on August 23, 2010, to defer the following payments:

- July 2010 payments will be deferred for 60 days, in the amount of \$2.5 billion. The entire \$1.5 billion July advance principal apportionment payment will be deferred as a part of this \$2.5 billion along with approximately \$1 billion of the prior year deferrals from February and June 2010.
- The September 2010 payment will be deferred to December 2010 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.

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.

### **Additional Apportionment Deferrals**

As part of the 2010-11 State Budget deal, AB 1624 and AB 1610 authorized additional deferrals for K-12 Education. AB 1624 defers up to \$3.2 billion from October 2010 to November 15, 2010. However, the State was able to obtain bridge financing, so this planned deferral did not take place. AB 1610 defers an additional \$420 million from April 2011 to July 2011, \$800 million from May 2011 to July 2011, and \$500 million from June 2011 to July 2011. Please refer to the tables below for a complete list of 2010-11 deferrals. Note that approximately \$7.1 billion in payments are being delayed from one fiscal year to the next. Please refer to Attachment E for a graphic illustration of the apportionment deferrals.

| <b>K-12 Deferral Amount</b>                                      | <b>2010-11 Timeframe</b>        |
|--|---------------------------------|
| \$2.5 Billion <sup>2</sup>                                       | July 2010 to September 2010     |
| \$2.5 Billion  | September 2010 to December 2010 |
| \$2.6 Billion  | February 2011 to July 2011      |
| Up to \$2.5 Billion  | March 2011 to April 29, 2011    |
| \$420 Million  | April 2011 to July 2011         |
| \$679 Million  | April 2011 to August 2011       |
| \$800 Million  | May 2011 to July 2011           |
| \$1.0 Billion  | May 2011 to August 2011         |
| \$1.6 Billion <sup>3</sup>                                       | June 2011 to July 2011          |
| <b>Total: \$14.6 Billion (\$7.1 Billion across fiscal years)</b> |                                 |

**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 December and April.**

### **Apportionment Schedules**

In addition to deferrals, SBX4 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). The following tables outline the principal apportionment schedules referenced in Education Code Section 14041 (note that a negative amount includes funds being deferred to a different timeframe, a positive amount shows funds being restored from a prior deferral). SBX4 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. **Please feel free to contact our office for assistance with cash borrowing options.**

The first apportionment table outlines the apportionment schedule for school districts and county offices per Education Code Section 14041(a)(1)(2)(3)(4).

<sup>2</sup> This includes approximately \$1 billion of the 2009-10 P-2 payment, which was paid in September 2010.

<sup>3</sup> 100% of the June P-2 Principal Apportionment is deferred to July (estimated to be \$1.6 billion).

| 2010-11 Principal Apportionment Monthly Payment Schedule                                       |     |  |  |                                |                                   |
|--|-----|--|--|--------------------------------|-----------------------------------|
| Education Code Section 14041(a)(1)(2)(3)(4)  |     |  |  |                                |                                   |
| <u>Month</u>   |     | SBX4 -16<br>Monthly<br>Payment<br>Schedule | Monthly<br>Payment<br>Schedule with<br>Deferrals** | Monthly %<br>Shortfall/ Excess | Cumulative %<br>Shortfall/ Excess |
| July   | *   | 5.00%                                      | 0.00%  | -5.00%                         | -5.00%                            |
| August   | *   | 5.00%                                      | 5.00%  | 0.00%                          | -5.00%                            |
| September  | *   | 9.00%                                      | 5.00%  | -4.00%                         | -9.00%                            |
| October  |     | 9.00%                                      | 9.00%  | 0.00%                          | -9.00%                            |
| November   |     | 9.00%                                      | 9.00%  | 0.00%                          | -9.00%                            |
| December   |     | 9.00%                                      | 18.00%   | 9.00%                          | 0.00%                             |
| January  |     | 9.00%                                      | 9.00%  | 0.00%                          | 0.00%                             |
| February   | *** | 9.00%                                      | 1.00%  | -8.00%                         | -8.00%                            |
| March  |     | 9.00%                                      | 0.00%  | -9.00%                         | -17.00%                           |
| April  | *** | 9.00%                                      | 13.60%   | 4.60%                          | -12.40%                           |
| May  | *** | 9.00%                                      | 1.90%  | -7.10%                         | -19.50%                           |
| June   |     | 9.00%                                      | 0.00%  | -9.00%                         | -28.50%                           |
| <u>Subsequent Year</u>   |     |  |  |                                |                                   |
| July   |     |  | 21.90%   |                                | -6.60%                            |
| August   |     |  | 6.60%  |                                | 0.00%                             |
| * Does not include prior year deferrals  |     |  |  |                                |                                   |
| **Includes intrayear deferrals   |     |  |  |                                |                                   |
| ***Percentages are estimated based on the statewide 2010-11 Recertified Advance Apportionment. |     |  |  |                                |                                   |

Per Education Code Section 14041(a)(7), the following apportionment table is for school districts that reported less than 5,000 units of average daily attendance in the 1979-80 fiscal year and that received 39 percent or more, but less than 75 percent, of their total revenue limits from local property taxes in that fiscal year.

| 2010-11 Principal Apportionment Monthly Payment Schedule             |     |  |  |                                |                                   |
|--|-----|--|--|--------------------------------|-----------------------------------|
| Education Code Section 14041(a)(7)                                   |     |  |  |                                |                                   |
| <u>Month</u>   |     | SBX4 -16<br>Monthly<br>Payment<br>Schedule | Monthly<br>Payment<br>Schedule with<br>Deferrals** | Monthly %<br>Shortfall/ Excess | Cumulative %<br>Shortfall/ Excess |
| July   | *   | 15.00%                                     | 0.00%  | -15.00%                        | -15.00%                           |
| August   | *   | 15.00%                                     | 15.00%   | 0.00%                          | -15.00%                           |
| September  | *   | 15.00%                                     | 15.48%   | 0.48%                          | -14.52%                           |
| October  |     | 15.00%                                     | 15.00%   | 0.00%                          | -14.52%                           |
| November   |     | 0.00%                                      | 0.00%  | 0.00%                          | -14.52%                           |
| December   |     | 0.00%                                      | 14.52%   | 14.52%                         | 0.00%                             |
| January  |     | 6.00%                                      | 6.00%  | 0.00%                          | 0.00%                             |
| February   | *** | 6.80%                                      | 0.80%  | -6.00%                         | -6.00%                            |
| March  |     | 6.80%                                      | 0.00%  | -6.80%                         | -12.80%                           |
| April  | *** | 6.80%                                      | 10.30%   | 3.50%                          | -9.30%                            |
| May  | *** | 6.80%                                      | 1.40%  | -5.40%                         | -14.71%                           |
| June   |     | 6.80%                                      | 0.00%  | -6.80%                         | -21.51%                           |
| <u>Subsequent Year</u>   |     |  |  |                                |                                   |
| July   |     |  | 16.47%   |                                | -5.04%                            |
| August   |     |  | 5.04%  |                                | 0.00%                             |
| * Does not include prior year deferrals                              |     |  |  |                                |                                   |
| **Includes intrayear deferrals                                       |     |  |  |                                |                                   |
| ***Percentages are estimated based on statewide 2009-10 P-1 figures. |     |  |  |                                |                                   |

Per Education Code Section 14041(a)(8), the following apportionment table is for school districts which reported less than 5,000 units of average daily attendance in the 1979-80 fiscal year and which received 75 percent or more of their total revenue limits from local property taxes in that fiscal year.

| 2010-11 Principal Apportionment Monthly Payment Schedule             |     |  |  |                                |                                   |
|--|-----|--|--|--------------------------------|-----------------------------------|
| Education Code Section 14041(a)(8)                                   |     |  |  |                                |                                   |
| Month  |     | SBX4 -16<br>Monthly<br>Payment<br>Schedule | Monthly<br>Payment<br>Schedule with<br>Deferrals** | Monthly %<br>Shortfall/ Excess | Cumulative %<br>Shortfall/ Excess |
| July   | *   | 15.00%                                     | 0.00%  | -15.00%                        | -15.00%                           |
| August   | *   | 30.00%                                     | 30.00%   | 0.00%                          | -15.00%                           |
| September  | *   | 30.00%                                     | 15.95%   | -14.05%                        | -29.05%                           |
| October  |     | 15.00%                                     | 15.00%   | 0.00%                          | -29.05%                           |
| November   |     | 0.00%                                      | 0.00%  | 0.00%                          | -29.05%                           |
| December   |     | 0.00%                                      | 29.05%   | 29.05%                         | 0.00%                             |
| January  |     | 6.00%                                      | 6.00%  | 0.00%                          | 0.00%                             |
| February   | *** | 0.00%                                      | 0.00%  | 0.00%                          | 0.00%                             |
| March  |     | 0.00%                                      | 0.00%  | 0.00%                          | 0.00%                             |
| April  | *** | 0.00%                                      | 0.00%  | 0.00%                          | 0.00%                             |
| May  | *** | 0.00%                                      | 0.00%  | 0.00%                          | 0.00%                             |
| June   |     | 4.00%                                      | 0.00%  | -4.00%                         | -4.00%                            |
| <u>Subsequent Year</u>   |     |  |  |                                |                                   |
| July   |     |  | 4.00%  |                                | 0.00%                             |
| August   |     |  | 0.00%  |                                | 0.00%                             |
| * Does not include prior year deferrals                              |     |  |  |                                |                                   |
| **Includes intrayear deferrals                                       |     |  |  |                                |                                   |
| ***Percentages are estimated based on statewide 2009-10 P-1 figures. |     |  |  |                                |                                   |

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 lowered 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. With the continued deferral of apportionments, it is more critical than ever to maintain higher levels of reserves for cash flow purposes.

County offices of education (COEs) and basic aid school 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 the 2010-11 Enacted State Budget provides more funding but the funding may not continue beyond 2010-11. School districts need to consider this as they negotiate changes to collective bargaining agreements. We suggest school districts be conservative in the timing of negotiations and wait until at least after the Governor’s January 2011 Budget.**

## NEW AB 1200 PROVISIONS

A new AB 1200 provision was in effect for fiscal year 2009-10 only. The Education Budget Trailer Bill ABX4 2 (Chapter 2/2009) specifies that COEs do not have the authority to assign a qualified certification if the problem in the third year is substantially due to the loss of ARRA funds.

This was intended to limit the COE authority. **This is no longer in effect for the review of the 2010-11 school district interim reports.** This provision was not continued and does not apply to the Federal Education Jobs Bill.

## 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.

Our concern is how we balance the cautions above with the reality of an average of a 5.17% revenue limit increase. The effective 5.17% is current statute and can be included in district budgets for the 2010-11 First Interim Report and Related MYPs. However, this increase may not be sustainable and therefore, we suggest caution with the timing of expenditure of these funds. We suggest plans be developed, but recommend expenditures be delayed until at least the January 2011 Governor’s Proposed Budget or even until the May 2011 Revise. It is recommended that school districts continue to be conservative and focus on a multi-year strategy when recommending decisions and obtaining agreements. Attention should be focused on the MYPs for 2011-12, 2012-13 and beyond.

We suggest that school districts closely review the State Board of Education Adopted Criteria and Standards as well as the FCMAT Predictors of Schools Needing Intervention (Attachment B) during the preparation of the First Interim Report. Consistent with past practices, Attachment C is provided as sample language that can be used by your School Board to indicate commitment for budget reductions for the out years of the multi-year projections.

Education Code Section 42127(i)(4) states:

*“Not later than 45 days after the Governor signs the annual Budget Act, the school district shall make available for public review any revisions in revenues and expenditures that it has made to its budget to reflect the funding made available by that Budget Act.”*

As the budget was signed on October 8, 2010, the final date is November 22, 2010. We recognize that the 45 day period is very close to the First Interim Report Period. It is suggested that school districts make formal budget adjustments with the First Interim Report. School districts can meet the education code requirements by providing summary information to their Boards with budget adjustments to be incorporated with the 2010-11 First Interim Report.

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.

## 2010 SSC School District and County Office Financial Projection Dartboard School Finance and Management Conference Version (October 11, 2010)

This version of SSC's Financial Projection Dartboard is based on the Adopted 2010-11 State Budget. 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 (applies to K-12 and COE Revenue Limits)            | 4.25%                             | -0.39%         | 1.70%          | 1.90%          | 2.00%          | 2.40%          |
| K-12 Revenue Limit Deficit %                                       | 18.355%                           | 17.963%        | 17.963%        | 17.963%        | 17.963%        | 17.963%        |
| COE Revenue Limit Deficits %                                       | 18.621%                           | 18.250%        | 18.250%        | 18.250%        | 18.250%        | 18.250%        |
| Other Revenue Limit Adjustments                                    | -\$252.99 <sup>1</sup><br>per ADA | N/A            | N/A            | N/A            | N/A            | N/A            |
| Net Revenue Limit Change: K-12<br>COEs                             | -12.07%<br>-12.37%                | 5.17%<br>5.17% | 1.70%<br>1.70% | 1.90%<br>1.90% | 2.00%<br>2.00% | 2.40%<br>2.40% |
| <b>SSC's Recommended Planning<br/>Revenue Limit COLA</b>           | N/A                               | N/A            | 0.00%          | 1.90%          | 2.00%          | 2.40%          |
| Special Education COLA (on state<br>and local share only)          | 0.00%                             | 0.00%          | 0.00%          | 1.90%          | 2.00%          | 2.40%          |
| State Categorical Funding (including<br>adult education and ROC/P) |                                   |                |                |                |                |                |
| Tier I   | 0.00%                             | 0.00%          | 0.00%          | 1.90%          | 2.00%          | 2.40%          |
| Tier II  | -4.46%                            | -0.00%         | 0.00%          | 1.90%          | 2.00%          | 2.40%          |
| Tier III   | -4.46%                            | -0.00%         | 0.00%          | 1.90%          | 2.00%          | 2.40%          |
| California CPI   | 0.70%                             | 1.20%          | 1.80%          | 2.10%          | 2.40%          | 2.70%          |
| California Lottery   | Base                              | \$110.25       | \$112.50       | \$111.00       | \$110.00       | \$108.75       |
|  | Proposition 20                    | \$15.50        | \$17.50        | \$17.50        | \$17.20        | \$17.20        |
| Interest Rate for Ten-Year Treasuries                              | 3.50%                             | 2.80%          | 3.40%          | 3.70%          | 3.90%          | 4.10%          |

| 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<br>(will change at each apportionment) | \$5,054 | \$5,128 | \$5,278 | \$6,142 |
| Categorical Block Grant (est.) <sup>2</sup>                        | \$400   | \$400   | \$400   | \$400   |
| Total  | \$5,454 | \$5,528 | \$5,678 | \$6,542 |

<sup>1</sup> 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 required school districts, COEs, and charter schools to reduce revenue limits by \$252.99 per ADA on a one-time basis in 2009-10.

<sup>2</sup> The Charter School Categorical Block Grant rates do not include Economic Impact Aid funding, which is provided separately. For charter schools that began operation in or after 2008-09, there is an additional \$159 per ADA supplemental categorical block grant.

# FCMAT Predictors of School Agencies Needing Intervention

The following 11 conditions represent those school agency problems most commonly encountered by the Fiscal Crisis and Management Assistance Team (FCMAT). The presence of any one condition is not necessarily an indication of a school agency in trouble. Unavoidable short-term situations such as key administrative vacancies can result in brief and acceptable periods of exposure to one or more of the following conditions. Exceeding acceptable limits of exposure in one or more of the following conditions is often the blueprint for districts nearing or presently in a crisis situation.

## 1. Leadership Breakdown\*

- a. Governance crisis\*\*
- b. Ineffective staff recruitment
- c. Board micromanagement and special interest groups influencing boards
- d. Ineffective or no supervision
- e. Litigation against district

## 2. Ineffective Communication\*

- a. Staff unrest and morale issues
- b. Absence of communication to educational community\*\*
- c. Lack of interagency cooperation\*\*
- d. Breakdown of internal systems (payroll, position control)

## 3. Collapse of Infrastructure

- a. Unhealthful and unsafe facilities and sites
- b. Deferred maintenance neglected
- c. Low Budget Priority
- d. Local and state citations ignored
- e. No long-range plan for facility maintenance

## 4. Inadequate Budget Development\*

- a. Failure to recognize year-to-year trends, e.g., declining enrollment or deficit spending\*\*
- b. Flawed ADA projections\*\*
- c. Failure to maintain reserves\*\*
- d. Salary and benefits in unrealistic proportions
- e. Insufficient consideration of long-term bargaining agreement effects\*\*
- f. Flawed multi-year projections\*\*
- g. Inaccurate revenue and expenditure estimations\*\*

## 5. Limited Budget Monitoring\*

- a. Failure to reconcile ledgers
- b. Poor cash flow analysis and reconciliation\*\*
- c. Inadequate business systems and controls
- d. Inattention to COE data
- e. Failure to review management control reports
- f. Bargaining agreements beyond state COLA\*\*
- g. Lawsuit settlements

## 6. Poor Position Control\*

- a. Identification of each position missing
- b. Unauthorized hiring
- c. Budget development process affected
- d. No integration of position control with payroll\*\*

## 7. Ineffective Management Information Systems\*

- a. Limited access to timely personnel, payroll, and budget control data and reports\*\*
- b. Inadequate attention to system life cycles
- c. Inadequate communication systems

## 8. Inattention to Categorical Programs\*

- a. Escalating general fund encroachment\*\*
- b. Lack of regular monitoring\*\*
- c. Illegal expenditures
- d. Failure to file claims

## 9. Substantial Long-Term Debt Commitments

- a. Increased costs of employee health benefits+
- b. Certificates of participation
- c. Retiree health benefits for employees and spouse+
- d. Expiring parcel taxes dedicated to ongoing costs

## 10. Human Resource Crisis

- a. Shortage of staff (administrators, teachers, support, and board)
- b. Teachers and support staff working out of assignment
- c. Students/classrooms without teachers
- d. Administrators coping with daily crisis intervention
- e. Inadequate staff development

## 11. Related Issues of Concern

- a. Local and state audit exceptions
- b. Disproportionate number of under performing schools
- c. Staff, parent, and student exodus from the school district
- d. Public support for public schools decreasing
- e. Inadequate community participation and communication

\* Highlights the seven conditions consistently found in each district requesting an emergency loan or dealing with a "fiscal crisis."

\*\* Represents the 15 conditions that have been found most frequently to indicate fiscal distress and are those referenced in Assembly Bill 2756 (Daucher) and recently amended Education Code Sections 42127 and 42127.6.

+ Indicates an emerging area of significant concern.

## **Attachment C – (consistent with past practices)**

In submitting the 2010-11 First Interim Report 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. If necessary, it is recognized that based on the 2010-11 Enacted State Budget, the school 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 school district will submit a revised detailed list of Board approved ongoing budget reductions for 2011-12 with the 2010-11 Second Interim Report.



# Attachment D

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.

## ORANGE COUNTY DEPARTMENT OF EDUCATION

200 KALMUS DRIVE  
P.O. BOX 9050  
COSTA MESA, CA  
92628-9050

(714) 966-4000

FAX (714) 662-3570

www.ocde.us

**WILLIAM M. HABERMEHL**  
County Superintendent  
of Schools

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

[illegible]

# Delayed Funding for Schools

2009-10

2010-11

2011-12

