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February 11, 2011

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

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

Subject: **Orange County Budget Advisory for the 2010-11 Second  
Interim Report and Related Multi-Year Projections**

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 budget advisory provides guidance for the 2010-11 Second Interim Report and is based upon the 2010-11 Budget Act and the Governor's 2011-12 January Proposed Budget.

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

cc: Superintendents  
Dari Barzel, Moody's Investors Services  
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# Orange County Budget Advisory

## 2010-11 Second Interim and Related Multi-year Projections Based on the Governor's January 2011-12 Budget Proposal February 11, 2011

### BACKGROUND

This document provides guidance for the 2010-11 Second Interim Report and related Multi-year projections (MYPs) and reflects the 2010-11 Enacted State Budget and the 2011-12 Governor's January Proposed Budget.

Governor Brown's 2011-12 Proposed Budget mirrors many of the same issues of past administrations. The Governor has acknowledged that education has been the only major program that has taken disproportionate budget reductions since 2007-08. As a result, he is committed to protecting education and therefore, proposed flat funding for education for 2011-12. However, flat funding really results in about a \$19 per average daily attendance (ADA) reduction.

Governor Brown is a veteran politician and has spent his short tenure by engaging both the Legislature and the public in discussions over the State's fiscal crisis. He has indicated that the 2011-12 Budget will be balanced when enacted. He readily acknowledges the State's severe fiscal crisis and on January 20, 2011, he reaffirmed the fiscal emergency authorized by Proposition 58 of 2004 and declared by Governor Schwarzenegger on December 6, 2010. The 2011-12 Governor's Proposed Budget was submitted with an estimate of an 18 month budget shortfall of \$25.4 billion, comprised of \$8.2 billion shortfall in 2010-11 and a \$17.2 billion shortfall in 2011-12. The Governor's proposal addresses the shortfall through application of three major components: expenditure reductions of \$12.5 billion over two years (2010-11 and 2011-12); revenue enhancements of \$12 billion over the same two year period to be achieved through a June ballot measure to extend the temporary taxes enacted in 2009-10 by five years (.25% surcharge on income tax, 1 cent increase in the sales tax, .5% increase in the vehicle license fee); and borrowings of \$1.9 billion from special funds and other one-time measures.

The success of this Proposal is heavily dependent upon 2/3 bipartisan legislative approval to place the tax extension measure on the ballot and then the majority of the voters approving the tax extension. Additionally, the Legislature would have to agree to expenditure reductions similar to ones that they have rejected in prior years. Part of his strategy is a proposal to realign or to shift responsibility of many programs along with the revenue sources to local governments. This would include using one-time Proposition 63 funds of \$861 million to fund community mental health services. There are many challenges ahead for the Governor and the Legislature to balance this budget.

If all of the Governor's strategies are enacted, then the total K-14 Proposition 98 funding would be \$49.3 billion, slightly less than the 2010-11 level of \$49.7 billion. The proposed budget is based on a Test 1 formula which uses a percentage or share of the State's General Fund Revenues which has been about 41.2%. A significant part of the proposal is to defer an additional \$2.1 billion for K-12 education, bringing the total K-12 funding deferrals to about \$9.3 billion per year.<sup>1</sup>

Education is very appreciative of the increased funding for 2010-11 and the proposed level funding for 2011-12 and the acknowledgement of the importance of California's education system. However, there is

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<sup>1</sup> \$961 million in Community College funding is deferred to the subsequent year. Thus the total K-14 deferral across fiscal years is over \$10.98 billion. The \$10.98 billion consists of the \$9.3 billion for K-12 Principal Apportionment, \$570 million for K-3 Class Size Reduction, \$38.7 million for School Safety Violence Prevention, \$100.1 million for the Targeted Instructional Improvement Grant, and the \$961 million for Community Colleges.

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. Many of the assumptions are aggressive and optimistic.
- This Governor is faced with a divided Legislature with Republicans opposing tax increases and Democrats opposing expenditure cuts.
- In order to receive flat funding for education, the Legislature must approve the ballot measure and the voters must approve the extension of temporary taxes for five additional years. The voters are being asked to approve tax increases when unemployment is at a high in California. If this fails, education's share of the loss would be reflected by a reduction in Proposition 98 of about \$2.3 billion or approximately \$330 per student. In order for the taxes to be enacted as proposed, it would require a 2/3 vote of the legislature which necessitates bipartisan support and then a majority vote of the electorate.
- Many of the proposed expenditure reductions are ones that the Legislature has refused to enact in the past. These are programs strongly supported by the Democrats.
- There are some signs of a United States (US) economic recovery, but California lags behind. The economy is the key to financial recovery for the State. Current projections by the University of California Los Angeles' (UCLA) Anderson Forecast suggest that the economy will remain sluggish for the next several years with a full recovery not expected until 2016; although some improvement is projected for 2011.
- The ongoing gap between revenues and expenditures has gotten worse with the 2011-12 Budget. This Governor faces the biggest deficit ever faced by any other Governor in history.
- California's unemployment rate is 12.4% compared to 9.4% for the US as a whole.
- The State Treasurer released the 2010 Debt Affordability Report which reflects that California continues to have the lowest general obligation bond rating of any state. This could impact future sales of revenue anticipation notes (RANs) which could result in more deferrals to education funding.
- Education is faced with another \$2.1 billion in deferrals bringing the total to about \$9.3 billion. Education must have higher reserves in order to meet their financial obligations or have alternative sources of borrowing.
- American Recovery and Reinvestment Act (ARRA) funds are one-time revenues and must be obligated 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 expended by September 30, 2012.
- This is not necessarily the worst case scenario. For example, it does not consider the Legislature's resolution of any further expenditure reductions.

## REVENUE LIMIT AND COST OF LIVING ADJUSTMENTS (COLAS)

The 2010-11 Enacted Budget eliminated 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 Governor's Budget for 2011-12 proposes no mid-year cuts for 2010-11 and an additional deferral of \$2.1 billion from 2011-12 to 2012-13. The 2011-12 Governor's Budget assumes a 1.67% COLA on revenue limits, and a .22% increase for growth in ADA, the latter which is equivalent to \$19 per ADA. The K-12 deficit factor was increased to 19.608%, by an amount sufficient to offset the increases for COLA

and ADA growth. The Governor's Budget also was built on the assumption that voters will approve a tax extension package.

The 2010-11 Enacted State Budget and the 2011-12 Proposed Governor's Budget specifies the deficit factor for revenue limits for 2010-11 and 2011-12 as defined in the following table:

	2010-11 Enacted State Budget	2011-12 Governor's Proposed Budget
Statutory Cost of Living Adjustment (COLA)	(0.39%)	1.67%
K-12 Deficit	17.963% (.82037)	19.608% (.80392)
County Office Deficit	18.250% (.8175)	19.892% (.80108)

The (0.39%) actual COLA for 2010-11 and the 1.67% Estimated COLA for 2011-12 translate into the following statewide average base revenue limit amount per ADA:

School District Type	2010-11 Statutory COLA (0.39%) - Actual	2011-12 Estimated Statutory COLA 1.67%
Elementary	(\$24)	\$102
High School	(\$29)	\$123
Unified	(\$25)	\$107

We recommend that school districts use the School Services of California (SSC) Dartboard (See Attachment A for the Governor's 2011-12 Budget Proposal Dartboard), which was updated based on the 2010-11 Enacted State Budget and the 2011-12 Proposed Governor's Budget in the development of the 2010-11 Second 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 COLA-Governor's Budget."** **This recommendation is to use the statutory COLA of 1.67% and apply a deficit factor of 19.608% which results in a net funded COLA of (0.369%) for 2011-12, plus an additional ongoing revenue limit reduction of approximately \$330 per ADA based on the expiration of the temporary taxes under current law.** There is still concern about the COLAs for 2012-13 and beyond. However, the SSC Dartboard is the best data at this time. School districts may want to designate a reserve for any COLAs reflected in the MYPs pending more data for potential funding.

## Meals for Needy Pupils and Beginning Teacher Salaries (AB 851)

Assembly Bill (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 caseloads 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. The 2011-12 Proposed Governor's Budget does not address this issue.

## CASH MANAGEMENT

### Intra-Year Principal Apportionment Deferrals

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 to schools 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 were deferred for 60 days, in the amount of \$2.5 billion. The entire \$1.5 billion July advance principal apportionment payment was deferred along with approximately \$1 billion of the prior year deferrals from February 2010 and June 2010.
- About \$2.3 billion of the September 2010 recertified advance apportionment payment was deferred for 90 days to December 2010.
- The March 2011 first principal apportionment payment will be deferred until April 29, 2011, the amount of the deferral shall not exceed \$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.

Trailer bill legislation for the Governor's 2011-12 January Budget Proposal calls for a continuation of the Government Code section 16326(a) deferrals in the 2011-12 fiscal year. The July, October, and March apportionments would be deferred for 60, 90, and 60 days, respectively. With a 30 day notification, the State Controller, State Treasurer, and Director of Finance will retain the authority to shift the three deferrals to the prior month or delay until the subsequent month. LEAs should project 2011-12 cash flows accordingly.

If the State is unable to defer \$2.5 billion from the principal apportionment in July, October, and March, the difference between \$2.5 billion and the amount deferred from the principal apportionment will be applied to categorical programs that are outside of the principal apportionment.

### Inter-Year Principal Apportionment Deferrals

AB 1610 authorized additional principal apportionment deferrals for K-12 Education, commencing in 2010-11. AB 1610 defers \$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. **The Governor's 2011-12 January Budget Proposal calls for a new inter-year deferral of \$2.1 billion, commencing with the 2011-12 fiscal year. Per the proposed trailer bill language, the new deferral will be an ongoing twelve month deferral from July 2011 to July 2012.** Please refer to the tables below for a complete list of principal apportionment deferrals. It is important to note that \$6.5 billion will be deferred from 2010-11 to 2011-12 and \$9.3 billion will be deferred from 2011-12 to 2012-13. The percentage of principal apportionment funds deferred across fiscal years in 2011-12 is 35.5%. Please refer to Attachment B for a graphic illustration of all principal apportionment deferrals.

2010-11		2011-12	
Deferral Amount	Timeframe	Deferral Amount	Timeframe
\$2.5 billion	July 2010 to September 2010	\$2.5 billion	July 2011 to September 2011
\$2.5 billion	September 2010 to December 2010	<b>\$2.1 billion</b>	<b>July 2011 to July 2012</b>
<b>\$2.0 billion</b>	<b>February 2011 to July 2011</b>	\$2.5 billion	October 2011 to January 2012
\$2.5 billion	March 2011 to April 29, 2011	<b>\$2.0 billion</b>	<b>February 2012 to July 2012</b>
<b>\$420 million</b>	<b>April 2011 to July 2011</b>	\$2.5 billion	March 2012 to April 29, 2012
<b>\$679 million</b>	<b>April 2011 to August 2011</b>	<b>\$420 million</b>	<b>April 2012 to July 2012</b>
<b>\$800 million</b>	<b>May 2011 to July 2011</b>	<b>\$679 million</b>	<b>April 2012 to August 2012</b>
<b>\$1.0 billion</b>	<b>May 2011 to August 2011</b>	<b>\$800 million</b>	<b>May 2012 to July 2012</b>
<b>\$2.3 billion<sup>2</sup></b>	<b>June 2011 to July 2011</b>	<b>\$1.0 billion</b>	<b>May 2012 to August 2012</b>
		<b>\$2.3 billion<sup>2</sup></b>	<b>June 2012 to July 2012</b>
<b>\$14.7 billion</b>	<b>Total Deferrals</b>	<b>\$16.8 billion</b>	<b>Total Deferrals</b>
<b>\$7.2 billion</b>	<b>Deferred across fiscal years</b>	<b>\$9.3 billion</b>	<b>Deferred 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 timing of when a district receives cash.

## Other Inter-Year Payment Deferrals

In addition to the inter-year principal apportionment payment deferrals, there are three inter-year deferrals applicable to K-3 Class Size Reduction (CSR), School Safety Violence Prevention (SSVP), and Targeted Instructional Improvement Grant (TIIG). These programmatic deferrals are in effect for 2010-11 and 2011-12. The deferral amounts are listed below:

- \$570 million for K-3 CSR (45% deferred across fiscal years)
- \$38.7 million for School Safety Violence Prevention (49% deferred across fiscal years)
- \$100.1 million for the Targeted Instructional Improvement Grant (12% deferred across fiscal years)

## Apportionment Schedules

SBX4 16 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.

<sup>2</sup> 100% of the June P-2 Principal Apportionment payment is deferred to July (the June payment is scored as \$1.6 billion for Proposition 98 purposes but is actually the higher amount shown on the table).

Please note that the principal apportionment deferrals will impact each school district differently depending upon: (1) the amount of State Aid revenue limit funding that each district receives and (2) the principal apportionment schedule that is dictated by Education Code Section 14041.

The first apportionment table outlines the apportionment schedule for school districts and county offices per **Education Code Section 14041(a)(1)(2)(3)(4)**. The schedule below applies to all Orange County districts with the exception of Buena Park Elementary, Brea Olinda Unified, and Laguna Beach Unified. Please note that the percentages deferred across fiscal years on the schedule below is only 33.5% and does not match the 35.5% mentioned on page 4 because the schedule below assumes the 5%, 5%, 9% (SBX4-16) apportionment schedule for the entire fiscal year and does not account for the changes associated with the First and Second Principal Apportionment certifications.

Principal Apportionment Monthly Payment Schedule								
Education Code Section 14041(a)(1)(2)(3)(4)								
		2010-11				2011-12		
<u>Month</u>		SBX4 -16 Monthly Payment Schedule	Monthly Payment Schedule with Deferrals**	Monthly % Shortfall/ Excess	Cumulative % Shortfall/ Excess	Monthly Payment Schedule with Deferrals**	Monthly % Shortfall/ Excess	Cumulative % Shortfall/ Excess
July	*	5.00%	0.00%	-5.00%	-5.00%	0.00%	-5.00%	-5.00%
August	*	5.00%	5.00%	0.00%	-5.00%	5.00%	0.00%	-5.00%
September	*	9.00%	5.00%	-4.00%	-9.00%	9.00%	0.00%	-5.00%
October		9.00%	9.00%	0.00%	-9.00%	0.00%	-9.00%	-14.00%
November		9.00%	9.00%	0.00%	-9.00%	9.00%	0.00%	-14.00%
December		9.00%	18.00%	9.00%	0.00%	9.00%	0.00%	-14.00%
January		9.00%	9.00%	0.00%	0.00%	18.00%	9.00%	-5.00%
February	***	9.00%	1.00%	-8.00%	-8.00%	1.00%	-8.00%	-13.00%
March		9.00%	0.00%	-9.00%	-17.00%	0.00%	-9.00%	-22.00%
April	***	9.00%	13.60%	4.60%	-12.40%	13.60%	4.60%	-17.40%
May	***	9.00%	1.90%	-7.10%	-19.50%	1.90%	-7.10%	-24.50%
June		9.00%	0.00%	-9.00%	-28.50%	0.00%	-9.00%	-33.50%
<u>Subsequent Year</u>								
July			21.90%		-6.60%	26.90%		-6.60%
August			6.60%		0.00%	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. This schedule is only applicable for Buena Park Elementary, Brea Olinda Unified, and Laguna Beach Unified.

Principal Apportionment Monthly Payment Schedule								
Education Code Section 14041(a)(7)								
			2010-11			2011-12		
Month		SBX4 -16 Monthly Payment Schedule	Monthly Payment Schedule with Deferrals**	Monthly % Shortfall/ Excess	Cumulative % Shortfall/ Excess	Monthly Payment Schedule with Deferrals**	Monthly % Shortfall/ Excess	Cumulative % Shortfall/ Excess
July	*	15.00%	0.00%	-15.00%	-15.00%	0.00%	-15.00%	-15.00%
August	*	15.00%	15.00%	0.00%	-15.00%	15.00%	0.00%	-15.00%
September	*	15.00%	15.48%	0.48%	-14.52%	15.00%	0.00%	-15.00%
October		15.00%	15.00%	0.00%	-14.52%	0.00%	-15.00%	-30.00%
November		0.00%	0.00%	0.00%	-14.52%	0.00%	0.00%	-30.00%
December		0.00%	14.52%	14.52%	0.00%	0.00%	0.00%	-30.00%
January		6.00%	6.00%	0.00%	0.00%	21.00%	15.00%	-15.00%
February	***	6.80%	0.80%	-6.00%	-6.00%	0.80%	-6.00%	-21.00%
March		6.80%	0.00%	-6.80%	-12.80%	0.00%	-6.80%	-27.80%
April	***	6.80%	10.30%	3.50%	-9.30%	10.30%	3.50%	-24.30%
May	***	6.80%	1.40%	-5.40%	-14.71%	1.40%	-5.40%	-29.71%
June		6.80%	0.00%	-6.80%	-21.51%	0.00%	-6.80%	-36.51%
Subsequent Year								
July			16.47%		-5.04%	31.47%		-5.04%
August			5.04%		0.00%	5.04%		0.00%
* Does not include prior year deferrals								
**Includes intrayear deferrals								
***Percentages are estimated based on the statewide 2010-11 Recertified Advance Apportionment.								

## K-3 CLASS SIZE REDUCTION (CSR)

As added by SBX3 4 and amended by ABX4 2, E.C. Section 52124.3 restricted participation in the K-3 CSR program to those LEAs that had applied for 2008-09 K-3 CSR funds by January 31, 2009, and capped LEA funding in 2008-09 through 2011-12 to the total number of classes reported on that application. Although LEAs are not held to the reported grades levels on the 2008-09 Operations Application, they must claim funds in adherence with the grade level implementation priorities at each school-site.

It should be noted, the district cap is applied to the total number of classes, not the total number of Option One classes separate from the total number of Option Two classes. As such, LEAs may now, under certain circumstances, "switch between options." For example, if a district operates 2 classes of 27:1 for one-half of the instructional day and these classes become 3 Option Two classes of 18:1 for the other half of the day, subject to the class count cap, the district may claim either 2 Option One classes of 27:1 or 3 Option Two classes of 18:1. It may not claim 3 Option One classes, however, because it did not maintain a reduced size class of 18:1 for the full day. Similarly, if a district applied for 3 Option Two first grade



classes in 2008-09 and now operates 2 first grade classes of 30:1 for the full day, it may now claim Option One funding (instead of Option Two funding) of 30:1 for the 2 classes. Districts should read carefully the California Department of Education (CDE) claiming instructions for more information.

**2009-10 Program.** The 2010-11 Budget Trailer Bill cut \$339,956,000 in funding from the 2009-10 program, specifically, from the appropriation of funds deferred from 2009-10 to 2010-11. This cut has caused the 2009-10 program to be overspent by almost \$50 million, and the amount will be recovered from the February 2011 apportionment.

**2010-11 Program.** The 2010-11 program is funded through a continuous appropriation which means, without additional legislative action, the program will be fully funded at rates of \$1,071 per pupil for Option One (full day) and \$535 per pupil for Option Two (half day). The budget assumes an expenditure level that is \$85 million below the level applied for in 2010-11.

**2011-12 Program.** The Governor's Budget proposes total funding equal to the 2010-11 budget assumption, to provide funding through budget act and trailer bill appropriations instead of through a continuous appropriation, and maintains funding rates at 2010-11 levels.

The 2011-12 Proposed Governor's Budget has proposed extension of the reduced penalties through 2013-14 as follows:

CSR Graduated Penalties	
Class Size	2008-09 to 2013-14
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

**It is believed that CSR flexibility through 2013-14 will be enacted. Therefore, school districts may include this revenue through 2013-14 in the MYPs. The CSR programs still sunset one year earlier than other Tier 3 Categorical Flexibility programs.**

## Class Size Penalties

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. Districts may apply for a class size waiver with the State Board of Education.

## SPECIAL EDUCATION

Special Education AB 602 funding has a 0% COLA for 2010-11 and 2011-12. The estimated statutory COLA for 2012-13 is 1.80%. However, we caution school districts to consider excluding this 1.8% COLA from the MYP or placing in a designated reserve. For 2010-11 and 2011-12, growth is funded at approximately \$465.44/ADA.

### AB 602 Special Disabilities Adjustment (SDA)

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 Special Education Local Plan Area (SELPA) and develop strategies for this loss of funding in their MYPs.

For 2011-12, there is \$20.2 million in additional federal funding which will be distributed based on the AB 602 funding formula estimated to be \$3.38653 per ADA.

### AB 3632 Mental Health

Another special education issue of critical importance is the veto of AB 3632 (Chapter 1747/1984) funding of \$133 million for the SB 90 reimbursement of costs for mental health services for special education students. This legislation mandated county mental health agencies to provide services to children with disabilities and the funding was provided to county mental health agencies to reimburse prior year SB 90 mental health state mandated cost claims. On October 8, 2010, Governor Schwarzenegger used his line item veto authority to eliminate the \$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. There are several lawsuits pending that will hopefully decide whether the Governor has the authority to suspend the AB 3632 Mandate and to veto the funding. The California School Boards Association (CSBA) lawsuit, which was scheduled for hearing in the court of appeals on February 8, 2011, is seeking to invalidate the Governor's veto and restore the \$133 million dollars appropriated by the Legislature for SB 90 mandated cost reimbursement for prior services to the AB 3632 students. 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. A recent Superior Court decision on AB 3632 ruled that mental health agencies could not stop services to students currently being served. However, the ruling did not address services to future students and the case cannot be used as a precedent for other like court cases. School districts should discuss this with their SELPA and fiscally plan for this action.

On October 29, 2010, State Superintendent of Public Instruction Jack O'Connell announced that the CDE will continue to allocate \$76 million in available federal funds to maintain essential mental health services

for students with severe disabilities for 2010-11, despite Governor Schwarzenegger's unilateral suspension of mental health services for students and his line-item veto of \$133 million in the general fund appropriated by the Legislature for the SB 90 mandated cost reimbursement for prior services to AB 3632 students provided by county mental health offices. This is not continued beyond 2010-11. **There are still many unanswered questions about the distribution of these funds and whether the allocation will cover all costs for 2010-11. School districts need to work with their SELPA on resolutions.**

The 2011-12 Proposed Governor's Budget allocates \$98.6 million from the Mental Health Services Act (Proposition 63) to counties to reimburse for prior-year mandate claims for years 2004-05 through 2008-09. This would require a two-thirds vote of the Legislature.

There is also \$70 million allocated to Social Services for residential treatment for AB 3632 students for 2011-12, but not for 2010-11.

Commencing in 2012-13, AB 3632 costs are proposed to be covered by a dedicated revenue source as part of the Governor's proposed realignment plan.

## FLEXIBILITY

### Categorical Flexibility and Public Hearing

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. 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 request that their independent auditor review the Board agenda and minutes to ensure compliance with the audit guide and the education code requirements prior to June of each fiscal year.**

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. **The 2011-12 Proposed Governor's Budget does not provide any additional growth or COLA to the Tier 3 categorical flexibility programs. However, it does extend the Tier 3 flexibility to June 30, 2015. School Districts may include the extension in the development of the 2011-12 Budget and related MYPs.**

Please note that SBX3 4 authorized LEAs to use 100% of certain restricted balances as of June 30, 2008, for any educational purpose. Although SBX3 4 provided that LEAs could transfer these flexed balances in either 2008-09 or 2009-10, as CDE's April 2009 letter pointed out, as a practical matter these flexed balances became unrestricted as soon as SBX3 4 was enacted into law in February 2009. LEAs were therefore advised to report the balances in a manner consistent with their newly-unrestricted character, that is, to reclassify the balances to an unrestricted resource, by the end of 2008-09.

ABX4 2, which was enacted early in 2009-10, added a few more flexed balances to the list. LEAs that had already closed their books for 2008-09 should have reclassified these additional balances to an unrestricted resource by the end of 2009-10.

The restricted Standardized Account Code Structure (SACS) resource codes that formerly identified these flexed balances are no longer valid in the SACS software. Any LEA that has not reclassified these balances to unrestricted should do so, even where the LEA has elected to use its flexed funding to continue to operate a formerly restricted program. LEAs may account separately for flexed balances and flexed funding in a locally-defined unrestricted resource code (0001–0999), although this is not required.

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 and is proposed to be extended through 2014-15. Flexibility is continued for routine restricted maintenance, deferred maintenance, and flexibility to shorten the instructional school year through 2014-15.

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

## 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. The 2011-12 Proposed Governor's Budget extends this suspension to June 30, 2015. Therefore, school districts will not be required to purchase materials under the adoption schedule for 2009-10 through 2014-15. 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.**

## 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. The 2011-12 Proposed Governor's Budget extends the reduction in the minimum reserve flexibility for an additional two years until June 30, 2014. However, school district must make progress in the 2012-13 fiscal year towards returning to compliance with the percentages established in the Criteria and Standards. 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 June 30, 2014. With the continued deferral of apportionments, it is more critical than ever to maintain higher levels of reserves for cash flow purposes. Remember that a school district needs a state loan when they run out of cash and do not have any other borrowing options even if the school district has a positive fund balance.

**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.**

## FEDERAL FUNDS

### State Fiscal Stabilization Funds (SFSF)

The final SFSF entitlement amounts are available on the CDE's web site at <http://www.cde.ca.gov/fg/aa/ca/arra.asp>. As a result of the recalculation, CDE has updated the SFSF – Total Entitlements Schedule. A new SFSF 2008-09 General Purpose Reduction Entitlement file is also available, which provides further information on the final general purpose calculations. Now that final entitlements are released, school districts should budget based on the final entitlement amount.

Due to federal cash management monitoring, future apportionments of SFSF funds will be based on expenditure information reported to CDE via the quarterly ARRA Section 1512 reports. Additional information about Section 1512 reporting is available at <http://www.cde.ca.gov/ar/rr/>.

Also note that the federal government plans to audit ARRA funds 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.

Per SSC, please note that all ARRA funds, including Title I and Individuals with Disabilities Education Act (IDEA) funds, must be obligated by September 30, 2011. However, salaries and benefits 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 passed H.R. 1586. 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 CDE has posted preliminary and revised calculations on how much local educational agencies would receive under the federal Education Jobs Fund at <http://www.cde.ca.gov/fg/aa/ca/edjobsfund.asp>.

The preliminary and revised 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 and revised entitlements were calculated using 2009-10 Second Principal Apportionment data. An LEA may receive an allocation equal to 90% 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 SFSF 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 (except bus drivers) 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 SACS 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>

## CHILD CARE

The Enacted Budget did not eliminate child care programs, however, there were some changes:

- Funding is capped for alternative payment program provider child care placements at 80% of the 2005 Regional Market Rate (RMR), an 11% reduction from the 90% cap in place prior to 2010-11
- The administrative cost limit is reduced from 19% to 17.5% for alternative payment provider contracts
- Center-based reserves are limited 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
- Support for Local Planning Councils are reduced by 50%, for a savings of \$3.3 million
- It is now harder to qualify for the child care subsidy. The income eligibility threshold has been reduced from 75% of State Median Income to 60% of State Median Income with the exception of the part-day state preschool program (remains at the 75% level).

**The new cap on provider rates is effective November 1, 2010 and the reduced administrative cost percentage is effective as of October 1, 2010.**

In addition to the changes enacted by the Legislature, the Governor vetoed \$256 million of child care funding to eliminate state support for California Work Opportunities and Responsibility to Kids (CalWORKS) stage 3 child care services. Stage 3 child care services were supposed to end on October 31, 2010. 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, 2010.



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.

The 2011-12 Proposed Governor's Budget proposes for 2010-11 to reverse the cuts to CalWORKS Stage 3 child care services by using \$42.6 million in one time federal funding. As of April 1, 2011, the Governor expects lower subsidy and eligibility rules to take effect. This funding continues for 2011-12 at a level based upon the lower subsidy and eligibility rules.

The 2011-12 Proposed Governor's Budget reduces direct service child care programs by \$716 million. This results in greater eligibility restrictions, including elimination of services to children ages 11 and 12; decreasing income thresholds for a family of four to approximately \$45,450, a 35% reduction to provider rates and other changes. Additional flexibility is proposed to offset the new restrictions.

## INTEREST YIELD PROJECTIONS

The current interest yield projection for fiscal year 2010-11 and 2011-12 is 0.75%. 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.

## LOTTERY

Please note that Lottery funding will be calculated in the same manner as prior years, with the exception that through 2014-15, 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 AB 142 (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 restricted). The 2011-12 projection is \$111 per ADA (unrestricted) and \$17.50 per ADA (Prop. 20 restricted).

## MANDATED COSTS

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 has been allocated on an equal amount per ADA. The per ADA allocation was distributed to Orange County LEAs on January 31, 2011. 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 state 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.

The 2011-12 Proposed Governor's Budget provides continued funding of \$90 million<sup>3</sup> for 2011-12 claims and continues the suspension of the nine mandates listed above.

At this time it is recommended that school districts continue to 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.

## PROPERTY TAXES

We recommend that school districts align their current year property taxes with the 2010-11 P-1 Property Tax estimates when preparing the Second Interim report. For 2011-12, the Orange County Assessor projects county-wide assessed valuations to change year over year by -1% to +1%. Similarly, the Orange County Auditor-Controller's Office projects 2011-12 county-wide property taxes to remain flat with a variance of  $\pm 1\%$ .

<i>Property Tax Change (2010-11 to 2011-12)</i>	
<i>County-wide</i>	Between -1% and +1%
<i>Newport Mesa Unified</i>	0.5%
<i>Laguna Beach Unified</i>	2.0%
<i>Irvine Unified</i>	0.0%

<sup>3</sup> \$90 million is the proposed mandated cost appropriation for K-14; of which \$80.355 million is for K-12.

## QUALITY EDUCATION INVESTMENT ACT OF 2006 (QEIA)

The 2010-11 Enacted State Budget provides \$420 million (of this, \$402 million is for K-12) in funding outside of Proposition 98 for QEIA for 2010-11. This funding is from one-time sources. The 2011-12 Proposed Governor's Budget has proposed funding in order to continue QEIA at its current funding commitment. ABX4 2 (Chapter 2/2009) extended QEIA funding one more year to 2014-15 to fully meet the State's obligation for QEIA.

## 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. The 2011-12 Proposed Governor's Budget does not provide any further COLA or growth.

## BASIC AID FAIR SHARE BUDGET REDUCTIONS

Section 37 of ABX4 2 requires that categorical funding allocations in 2010-11 to school districts that were basic aid in 2009-10 be reduced by the lesser of: (1) the district's 2009-10 total revenue limit subject to the deficit factor, calculated as of the 2009-10 certified second principal apportionment, multiplied by 5.81% or (2) the amount of the district's excess taxes.

The apportionment reductions for basic aid school districts applies to fiscal year 2010-11 only. The districts' entitlement to funds in subsequent years will not be affected by the reductions in 2010-11. To view the list of basic aid districts, the total amount to be reduced from their 2010-11 categorical funding allocations, and the 2010-11 program funding that has been offset to date in satisfaction of the basic aid cut, please go to the CDE Web page at <http://www.cde.ca.gov/fg/aa/ca/documents/basicaid.asp>.

Note, statute prohibits the CDE from offsetting funding for special education, After School Education and Safety (ASES), QEIA and child care. The basic aid reduction is also limited by the California Constitutional requirement (Section 6 of Article IX) that the State provide funding equal to the greater of \$120 per ADA, or \$2,400 per school agency (E.C. 41975).

**The 2010-11 Enacted State Budget and the 2011-12 Proposed Governor's 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 or additional reductions in 2011-12 to be taken in 2012-13). However, we encourage basic aid districts to include a \$330 per ADA fair share reduction in their 2011-12 budget preparation based on the expiration of current law regarding temporary taxes.**

## NEGOTIATIONS

When considering a multi-year contract, school districts need to be very flexible and have appropriate contingency language, due to the uncertainty of the final budget solution for the budget and subsequent years.

It is also important to note that the 2011-12 Proposed Governor's Budget provides level funding but the funding is contingent upon the extension of the temporary taxes, expenditure reductions, and realignment of government services. 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 strongly recommend that school districts develop budgets for 2011-12 that anticipate a loss of \$349 per ADA (\$19 plus \$330). The outcomes of the tax extension may not be known until June and school districts must meet the March 15 statutory deadlines. Do not count on a second layoff window in August 2011. We suggest plans be developed about programs and services to be reinstated if the tax extension passes and have those plans ready for immediate implementation. 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.

Consistent with past practices, Attachment C is included for school district boards to identify budget reductions for the out years of the multi-year projections.

We understand how difficult it is for school districts to deal with the increased pressures, significantly reduced funding, increased apportionment deferrals, the uncertainty of the tax extensions, 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.

## 2011 SSC School District and County Office Financial Projection Dartboard

### Governor's 2011-12 Budget Proposal

This version of SSC's Financial Projection Dartboard is based on the Governor's 2011-12 State Budget proposal. 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	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Statutory COLA (applies to K-12 and COE Revenue Limits)	-0.39%	1.67%	1.80%	2.30%	2.70%	2.80%
K-12 Revenue Limit Deficit %	17.963%	19.608% <sup>1</sup>	19.608%	19.608%	19.608%	19.608%
COE Revenue Limit Deficits %	18.250%	19.892% <sup>1</sup>	19.892%	19.892%	19.892%	19.892%
Net Revenue Limit Change: K-12 COEs	5.17%	-0.369% <sup>1</sup>	1.80%	2.30%	2.70%	2.80%
	5.17%	-0.369% <sup>1</sup>	1.80%	2.30%	2.70%	2.80%
<b>SSC's Recommended Planning COLA—Governor's Budget</b>	N/A	-0.369% <sup>1</sup>	1.80%	2.30%	2.70%	2.80%
<b>SSC's Recommended Planning COLA—If Tax Extensions Fail</b>	N/A	-\$330 per ADA ongoing <sup>2</sup>	1.80%	2.30%	2.70%	2.80%
Special Education COLA (on state and local share only)	0.00%	0.00%	1.80%	2.30%	2.70%	2.80%
State Categorical Funding (including adult education and ROC/P)	Tier I	0.00%	0.00%	1.80%	2.30%	2.80%
	Tier II	0.00%	0.00%	1.80%	2.30%	2.80%
	Tier III	0.00%	0.00%	1.80%	2.30%	2.80%
California CPI	1.20%	1.70%	2.20%	2.60%	2.90%	3.00%
California Lottery	Base	\$112.50	\$111.00	\$110.00	\$108.75	\$108.75
	Proposition 20	\$17.50	\$17.50	\$17.20	\$17.20	\$17.20
Interest Rate for Ten-Year Treasuries	3.20%	3.80%	4.10%	4.40%	4.50%	4.60%

ESTIMATED STATEWIDE AVERAGE BASE REVENUE LIMITS PER ADA "UNDEFICITED"			
Year	Elementary	High School	Unified
2010-11 Statewide Average (est.)	\$6,108	\$7,340	\$6,386
2011-12 Inflation Increase @ 1.67% COLA	\$102	\$123	\$107
2011-12 Statewide Average (est.)	\$6,210	\$7,463	\$6,493

2011-12 BUDGET ACT ESTIMATED CHARTER SCHOOL RATES				
	K-3	4-6	7-8	9-12
General Purpose Block Grant (will change at each apportionment)	\$5,030	\$5,106	\$5,252	\$6,097
Categorical Block Grant (est.) <sup>3</sup>	\$410	\$410	\$410	\$410
Total	\$5,440	\$5,516	\$5,662	\$6,507

<sup>1</sup> The estimated deficit factor of 19.608% calculated by the Department of Finance (DOF) is somewhat higher than that calculated by SSC. We estimate the deficit factor necessary to eliminate the COLA to be about 0.3% lower. We continue to work with the DOF to reconcile the factors used in the calculation and will adjust the SSC Dartboard accordingly.

<sup>2</sup> The -\$330 per ADA recommendation is based on the Governor's estimate of the loss to Proposition 98 if the temporary taxes expire. The -\$330 would be added to the 0.369% loss for a total of about -\$350 per ADA for the average district.

<sup>3</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.

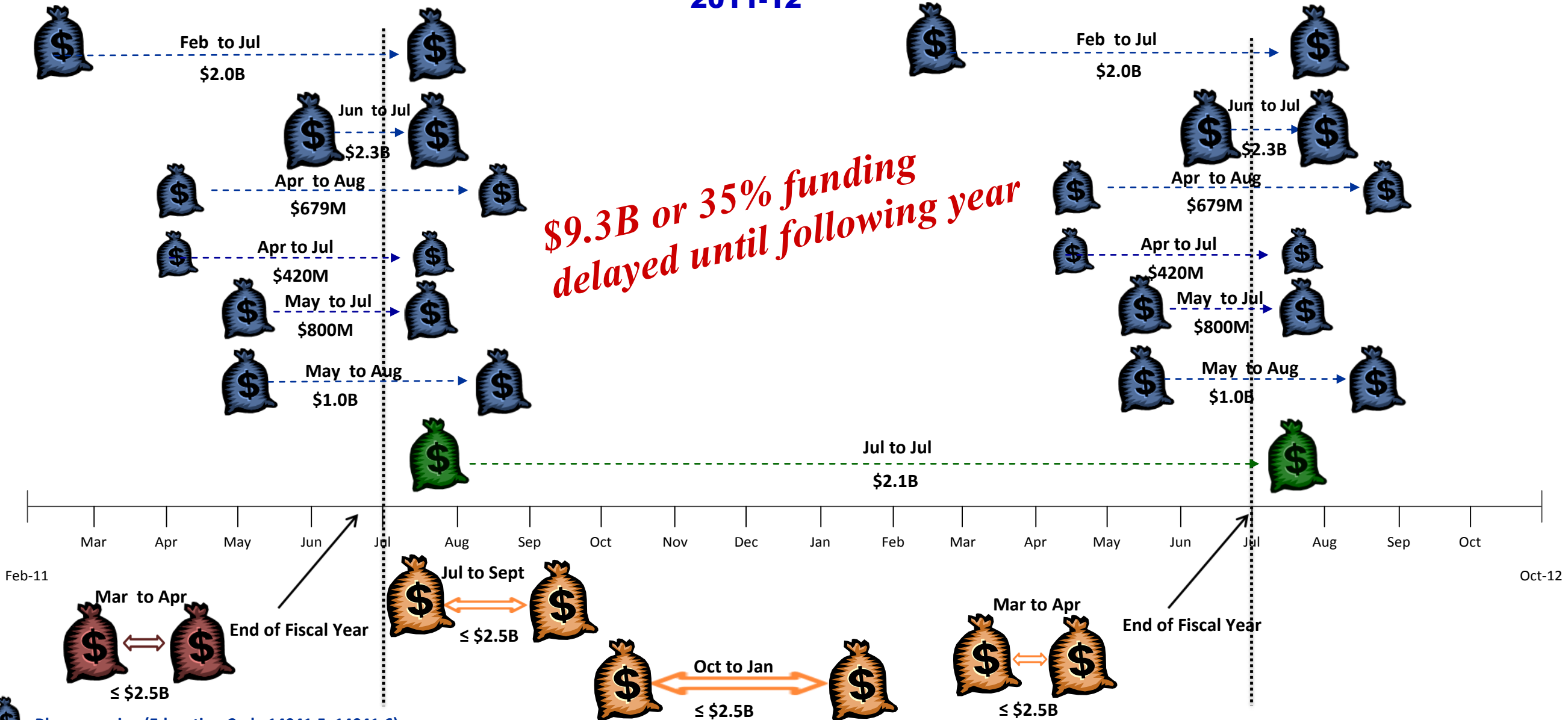
# Delayed Principal Apportionment Funding

Attachment B

2010-11

2011-12

2012-13



Blue - ongoing (Education Code 14041.5, 14041.6)

Red - one-time, pursuant to ABX8 14 (May be moved from prior month or delayed to the subsequent month). Total amount of deferrals of 2010-11 K-12 intra-year not to exceed \$2.5 billion at any given time and must be paid back by April 29, 2011. (Government Code 16326(a))

Green - ongoing deferrals based on the Education Trailer Bill Language for the Governor's 11-12 January Budget Proposal, subject to change.

Orange— one-time deferrals based on Cash Management Trailer Bill Language for the Governor's 11-12 January Budget Proposal, same as ABX8 14 deferrals.

Note: This deferral chart only shows principal apportionment funding and DOES NOT include the \$570M K-3 CSR deferral.

## Attachment C – Fiscal Solvency

In submitting the 2010-11 Second Interim Report, 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 2011-12 Proposed Governor's Budget and the expiration of the temporary taxes as provided in current law, 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.