

**California Department of Education / County Office of Education
School Financial Services Subcommittee
NOTES**

1430 N Street, Room 1801
Sacramento, CA

April 2, 2012
10:00 a.m.

Co-Chair: Darren Dang, Region IX – Orange COE - *Present*

Co-Chairs: Peggy O’Guin / Peter Foggiano, California Department of Education - *Present*

Vice Chair: Tommy Welch, Region IV – Solano COE - *Present*

Lynette Kerr	I	Humboldt
Adrian Barron	II	Butte
De’An Chambless	II	Shasta
Deborah Messervey	III	Nevada
Kathy Garrison	III	Placer
Debbie Holden	III	Sacramento
Debbie Wilkins	III	Sacramento
Jeff Potter	IV	Alameda
Sarah Blackstone	IV	Napa
Priscilla Aquino-Dichoso	IV	San Mateo

Jamie Dial	VII	Kings
Ann Peters	VII	Merced
Paula Driscoll	VIII	Ventura
Erin Garcia	IX	Imperial
Brent Watson	IX	San Diego
Nancy Sheets	X	Riverside
Teri Kelly	X	San Bernardino
Mel Iizuka	XI	Los Angeles
Peter Foggiano		CDE
Carol Bingham		CDE

1. CDE Report

- a) Postponement of the effective date of new GASB statement "Items Previously Reported as Assets and Liabilities" to 2013-14
 - **Background:** GASB Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, took effect 2011-12. It requires that certain items formerly reported as Assets or Liabilities must now be reported differently. These items do not typically apply to LEAs so GASB 63 did not require changes to account codes or fund forms. However, the GASB then embarked on a follow-up project to establish the comprehensive, and prescriptive, list of items to which GASB 63 would apply. The CDE has been following that project to determine whether changes to account codes and the fund forms may yet be needed. The GASB has just postponed the effective date of that project to 2013-14. Consequently, the CDE is postponing any related changes to account codes or the fund forms. So far, none of the items identified in the follow-up project appear to apply to LEAs.
- b) Form CASH
 - A handout of what the new CASH form will look like was available for review.
 - The option of using a cash flow form other than the SACS form will still be available to LEAs.
 - There will be the option of a second year projection. The second year projection will be available as a tab in the cash flow form.
 - The new CASH form will be in the upcoming 2013 budget release.
- c) Ed Jobs – final apportionment
 - This is an informational item. CDE has a final, final, which is posted on their web page. It is the March dated report. The apportionment is still based on cash management.
- d) Deadline for P-2 taxes extended to May 10, 2012
 - This is an informational item.

- e) Education Protection Account in the Governor's initiative
- http://ag.ca.gov/cms_attachments/initiatives/pdfs/i1057_12-0009_governors_initiative_v3.pdf
 - If the tax measure passes, increased revenues as a result of the measure would be deposited into an Education Protection Account and payments would flow on a quarterly basis to LEAs.
 - *Inflows.* ¼ cent increase in sales and use tax money from January 1, 2013 and before January 1, 2017 (4 years) and personal income tax increase from January 1, 2012 and before January 1, 2019 (7 years)
 - *Outflows:*
 - Before June 30, 2013 and each year thereafter, the Director of Finance will estimate the amount of additional revenues derived from the incremental tax increases, and 25% of this estimated amount will be distributed in each of the first three quarters, with a true up in the final quarter. For FY 2012-13, the Director of Finance will make the same estimate by January 10, 2013, for additional revenues, less refunds, that will be received by the end of the 2012-13 fiscal year.
 - Revenue Limit State Aid offset: Funds flowing from the Education Protection Account will be in proportion to the revenue limit funding for school districts, COEs, and charters. "The amounts so calculated shall be offset by the amounts specified in ... [the revenue limit calculation]..., which are in excess of the amounts calculated pursuant to Sections 2558, 42238, and 47633 of the Education Code for county offices of education, school districts, and charter schools."
 - *Additional requirements.* "Governing board or body shall make these spending determinations in open session of a public meeting and shall not use any of the funds from the Education Protection Account for salaries or benefits of administrators or any other administrative costs." There will also be an "annual independent financial and compliance audit."
 - *Cash flow implications and challenges.* If the tax initiative passes, this would present another revenue stream for school districts with quarterly distributions. This would add additional complexities to the projecting of cash flows. Another important note, the Director of Finance doesn't determine the estimate until June 30 of each year; this may present sizing challenges for districts needing to issue a TRAns in the beginning of the fiscal year.

2. Legislative Update

- It appears that AB18 (Brownley), which would have established themed block grants, has died.
- A new bill, AB1638 (Brownley), also proposes themed block grants. It is possible that this bill may end up as the vehicle for weighted student formula.
- It seems the big issues are as follows:
 - Weighted student formula.
 - The sense is that the Governor is very serious about this concept.
 - There is a feeling in the industry that it will be a challenge getting the student counts necessary to make this funding structure possible.
 - The administration is thinking they can get that information out of CALPADS.
 - However, there are some additional challenges to getting the data needed. For example, once a district is at 60% free then a district can claim all students as free.
 - Another perceived challenge is that issues might come up, like a bounty for every student that can be labeled at EL. Resulting in a minimization of the motivation to move students out of EL status from a district's view point.
 - Bottom line, there are a lot of issues to talk about and a lot of challenges to work through.

- There is some discussion that the formula might be tiered by grade level.
- Under the current plans the PERS reduction, UI adjustments, deficit factor, etc. will get lost, as the base will replace it. CDE will still collect the data for these items though as CDE will be required to calculate the revenue limit for the next six years. This would include adding back in the deficit factor for the first six years.
- It appears that the Administration is assuming that Prop 98 will be growing like gang busters. Under their assumptions, \$16B will be added to Prop 98 in the six years.
- Currently it appears the Legislature is non-committal. They have heard about the proposed formula and they are taking the proposal seriously.
- A question was asked if the hold harmless is written down because they were unable to find it in any of the writing. No one at the meeting thought that it was in the text of the suggested law. The thinking is that the agreement came later and was in the white paper.
- The feeling was that this might not be a good proposal when trying to get the tax proposal passed. However, the rhetorical question was posed, would Governor would be back next year?
- It is important for us to understand that there is a big desire in the Legislature to make the K-12 funding less complex. So, if we can share details about how this might be more/less complicated now is the time to share those details.
- There was a feeling that as long as it is tied to Prop 98 the funding would be subject to manipulation.
- In this proposal, the COLA would be just the growth in Prop 98 and not the current method of calculation.
- **Transitional K.**
 - It appears that DOF is backing off their original savings estimate. The revised estimate is about half of the original estimate.
 - The thinking is that the Legislature will reject the current proposal since there are serious concerns about the proposal.

3. BASC Reports

- Name change.
 - The issue of the name change was discussed.
 - There were enough members around the table that didn't like DISCO. We will continue looking for alternatives.
- See Attachment 1 for further notes.

4. Advance apportionment for 2012-13, what growth percentage is DOF using for property taxes?

- Currently, the percentage used is not known.

5. Redevelopment Agency P-1 exemption

- a) Any resolution on how the excess taxes will be calculated – using the LAO model includes pass through payments and the DOF model excludes pass through payments.
 - It was stated that there is a flowchart that reflects the different priorities for payments and how the CA would calculate the payments.
- b) Object 8047 will be used for both excess revenues from RPTTF and also pass through payments that are property taxes. The property tax report will report excess revenues from RPTTF on line A-13 and the pass through payments that are property taxes on line A-12. In the future can we use the same object code and line on the property tax report – this is less confusing.
 - There are no plans to make any changes at this time. One of the reasons CDE felt comfortable using a single SACS object code is because the data would be collected separately in the taxes.

- c) P1 RDA exemption request

<http://www.cde.ca.gov/fg/fi/ir/rdaexemptionrequest.asp>

https://admin.fcmat.org/wizard_contact_info_rda.asp

- DOF has stated that there will be opportunities to file for an exemption for those LEAs where the projected net tax increment will impact their fiscal solvency.
- The exemption form is on the FCMAT website. Note, FCMAT does not make the decision; they simply forward the application to DOF.
- The LEA will need to provide proof regarding why they think the holding back of the projected net tax increment will cause them to be insolvent. FCMAT will be contacting some LEAs that have already filed to get more information.
- The recommendation is that the COE not fill out the application on behalf of the district. The COE should make sure that an LEA would really be insolvent as they claim they will be if the exemption is not approved.
- Currently there is no deadline for filing the application.
- The application is for this year. This issue raised a concern. This exemption issue doesn't make sense unless there is the risk that DOF will continue to hold back the estimate of net tax increment at P2 instead of honoring the tax data filed by the Counties. No one is really sure what DOF is going to do and this adds to the confusion.

d) RDA Oversight Board Trainings

- Michelle discussed the dates of the upcoming trainings for the RDA oversight board members. The flyer is on the FCMAT website here: <http://www.fcmat.org/>

6. 2012-13 Audit Guide

- **There are two key things in the audit guide handout on page 3:**
 - **Shorter school year.**
 - **Pertussis Immunization.**
 - **It is important that LEAs have a high pass %. Otherwise, we risk this issue becoming a permanent item in the audit guide.**

7. Second Interim Budget Reviews

- **Discussed San Bernardino COE's spreadsheet.**
- **Changes were an increase in qualified from 110 to 147 qualified and an increase in negative from 7 to 8.**

8. Updating the COE Manual for this year

- **Discussed possible procedures:**
 - **Form CEA: This procedure does not exist yet. This might be a possible sub-section of the unaudited actuals procedure.**
 - **Public Disclosures: Teri volunteered to update this one. Ann volunteered to review.**
 - **We might want to read through these possible items:**
 - **Services to districts: Adrian and Sarah Blackstone agreed to review this procedure.**
 - **Approving district orders: Erin and Brent agreed to review this procedure.**
 - **District accountable and independent districts: DeAn Chambless agreed to review this procedure.**
- **Work on these and have drafts to SFSS by September.**
- **Final drafts to SFSS by October SFSS meeting.**
- **Then final draft to FCMAT after the October SFSS meeting.**

9. November Fall Conference Survey

- **Donna Fitting had forwarded preliminary survey results for the Fall 2012 conference. The preliminary results suggest that the hot topics from last year are still very relevant this year:**
 - **Cash flow,**
 - **Multi-year projections,**
 - **Early warning signs,**
 - **Conversation detective,**
 - **Reinforcing AB1200 concepts,**

- Criteria & standards inside out,
- FCMAT's quartile analysis,
- and use of technology to streamline our review process.

Additional Agenda Items:

a. Cash Project

- Updated the spreadsheet to remove the brackets of #1, 2 and 3 to indicate a certain level of borrowing. For example, bracket 3 was borrowing % was in the 75%-85% range. BASC didn't like the brackets.
- Some of the items in the current tools are unique for San Diego COE. They are working on modifying the tools so they will work across all counties.
- The red sheet was revised to identify 2 percentages:
 - 1st Percentage - designed to identify the amount of the deferral and compare that to the cash low point (this works for counties that can borrow against their deferrals from the county treasurer). This tells us how much the district is borrowing against its deferrals. If it's over 100%, then we look to make sure they have other internal funds available.
 - 2nd Percentage – compares the cash low point for the year against all amounts available for borrowing. If a district is over 100% in the first, but has other funds to borrow from (special reserve or building) then this percentage tells us that they can cover cash. It can help identify whether inter-fund borrowing is masking a cash problem in the general fund with significant borrowing from other funds.
- They are also trying to make it easier and simpler to use. For example, making the spreadsheet so that data is input in one area, which then flows across the spreadsheet.
- BASC is still talking about the concept of what level of fund balance should be considered in order to meet a certain cash balance.
- Diane Lacombe said she will share a tool that reflects how much cash each district has across all Funds. Except for the bond funds, 51 and 49. This would be how much cash to cover operating expense in months.

Next Meeting May 7, 2012

SFSS materials: <http://www.ocde.us/business/pages/sfss.aspx>

Attachment 1

BASC Notes

March 9th 2012

SSC - Robert Miyashiro

1. Unemployment at 8.3%
2. Governor's budget assumes 9% unemployment
3. LAO report headline – DOF forecast off by \$6.5m. \$2b attributable to Facebook IPO; discrepancy in capital gains income between LAO and DOF. LAO is legitimately challenging DOF's assumptions behind growth in personal income tax
 - LAO looked at historical increase vs actual realized gains
 - Historically 18% increases in housing prices
 - 1.4% increases projected in future years by economists
 - The \$90b forecast associated with home prices is higher than what we had in high flying years of 18% growth which only resulted in \$88B
4. Higher personal income
5. Higher corporate tax
6. Tax revenue unlikely to increase significantly
 - Polling on Governor's proposal is at 52%. Typically support goes down at election time.
 - The Munger proposal is backed by PTA.
 - CFT proposal is polling the best because it is the millionaire's tax. Need about 550,000 signatures. Governor has a higher bar of about 800k signatures because it is a constitutional amendment. Early May is the latest for initiatives to make it to the ballot. They must be certified by June 28th to be on ballot

SSC - Mike Ricketts

1. Discussed new statutes that would affect retirement.
2. Looking at two case studies \$60m operating budget.
 - One district has high state aid
 - The other is a high property tax district, borrowing cost not extreme but takes staff time and effort to manage and it has a psychological impact
3. A point was made to look at three areas:
 - State putting burden on backs of high poverty (high state aid districts). Cost of issuance is for the most part fairly fixed irrespective of size. Borrowing hits smaller districts much harder.
 - Behavioral changes as a result of deferrals
 - Increased risk because of lack of expertise or capacity

Mike Hulsizer:

1. The budget committee is very worried about revenue. Need for tax revenue passage is more important than ever
2. Ed coalition position
 - Trigger cuts are too high
 - Integrity of prop 98 must be respected. Making the GO bond payment out of prop 98 has a terrible effect on ability to pass bonds. Forces trade-offs between donors.
 - Weighted student formula is a distraction. It creates a winners and losers discussion, creates tension and is not fair. This is the worst possible time to be doing this.
 - \$1,000 that we lost is coming back unequally if WSF goes through. There is a position paper out now
 - Need authorization to negotiate 15 days. This can't just be an 'in theory.' Mike is confident that there will be language similar to what we had last year for the 15 days.

16

2nd year is optional
beg balance pull in? 90%
budget release

July 1 Budget (Single Adoption)
2012-13 Budget
Cashflow Worksheet

Form CA:

	Object	March	April	May	June	Accruals	Adjustments	TOTAL	BUDGET
ESTIMATES THROUGH THE MONTH OF JUNE									
A. BEGINNING CASH		0.00	0.00	0.00	0.00				
B. RECEIPTS									
Revenue Limit Sources									
Principal Apportionment	8010-8019					0.00	0.00	0.00	0.00
Property Taxes	8020-8079					0.00	0.00	0.00	0.00
Miscellaneous Funds	8080-8099					0.00	0.00	0.00	0.00
Federal Revenue	8100-8299					0.00	0.00	0.00	0.00
Other State Revenue	8300-8599					0.00	0.00	0.00	0.00
Other Local Revenue	8600-8799					0.00	0.00	0.00	0.00
Interfund Transfers In	8910-8929					0.00	0.00	0.00	0.00
All Other Financing Sources	8930-8979					0.00	0.00	0.00	0.00
TOTAL RECEIPTS		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
C. DISBURSEMENTS									
Certificated Salaries	1000-1999					0.00	0.00	0.00	0.00
Classified Salaries	2000-2999					0.00	0.00	0.00	0.00
Employee Benefits	3000-3999					0.00	0.00	0.00	0.00
Books and Supplies	4000-4999					0.00	0.00	0.00	0.00
Services	5000-5999					0.00	0.00	0.00	0.00
Capital Outlay	6000-6599					0.00	0.00	0.00	0.00
Other Outgo	7000-7499					0.00	0.00	0.00	0.00
Interfund Transfers Out	7600-7629					0.00	0.00	0.00	0.00
All Other Financing Uses	7630-7699					0.00	0.00	0.00	0.00
TOTAL DISBURSEMENTS		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
D. BALANCE SHEET TRANSACTIONS									
Assets									
Cash Not In Treasury	9111-9199	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Accounts Receivable	9200-9299					0.00	0.00	0.00	
Due From Other Funds	9310	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Stores	9320	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Prepaid Expenditures	9330	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Other Current Assets	9340	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
SUBTOTAL ASSETS		0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Liabilities									
Accounts Payable	9500-9599					0.00	0.00	0.00	
Due To Other Funds	9610	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Current Loans	9640	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Deferred Revenues	9650	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
SUBTOTAL LIABILITIES		0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Nonoperating									
Suspense Clearing	9910	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
TOTAL BALANCE SHEET TRANSACTIONS		0.00	0.00	0.00	0.00	0.00	0.00	0.00	
E. NET INCREASE/DECREASE (B - C + D)		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
F. ENDING CASH (A + E)		0.00	0.00	0.00	0.00				
G. ENDING CASH, PLUS CASH ACCRUALS AND ADJUSTMENTS								0.00	

July 1 Budget (Single Adoption)
2012-13 Budget
Cashflow Worksheet

Form CAS

	Object	Beginning Balances (Ref. Only)	July	August	September	October	November	December	January	February
ESTIMATES THROUGH THE MONTH OF JUNE										
A. BEGINNING CASH				0.00	0.00	0.00	0.00	0.00	0.00	-0.00
B. RECEIPTS										
Revenue Limit Sources										
Principal Apportionment	8010-8019									
Property Taxes	8020-8079									
Miscellaneous Funds	8080-8099									
Federal Revenue	8100-8299									
Other State Revenue	8300-8599									
Other Local Revenue	8600-8799									
Interfund Transfers In	8910-8929									
All Other Financing Sources	8930-8979									
TOTAL RECEIPTS			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
C. DISBURSEMENTS										
Certificated Salaries	1000-1999									
Classified Salaries	2000-2999									
Employee Benefits	3000-3999									
Books and Supplies	4000-4999									
Services	5000-5999									
Capital Outlay	6000-6599									
Other Outgo	7000-7499									
Interfund Transfers Out	7600-7629									
All Other Financing Uses	7630-7699									
TOTAL DISBURSEMENTS			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
D. BALANCE SHEET TRANSACTIONS										
Assets										
Cash Not In Treasury	9111-9199	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accounts Receivable	9200-9299	0.00								
Due From Other Funds	9310	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Stores	9320	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Prepaid Expenditures	9330	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Current Assets	9340	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SUBTOTAL ASSETS		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Liabilities										
Accounts Payable	9500-9599	0.00								
Due To Other Funds	9610	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Current Loans	9640	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred Revenues	9650	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SUBTOTAL LIABILITIES		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Nonoperating										
Suspense Clearing	9910	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL BALANCE SHEET TRANSACTIONS		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
E. NET INCREASE/DECREASE (B - C + D)				0.00	0.00	0.00	0.00	0.00	0.00	0.00
F. ENDING CASH (A + E)				0.00	0.00	0.00	0.00	0.00	0.00	0.00
G. ENDING CASH, PLUS CASH ACCRUALS AND ADJUSTMENTS										