California Department of Education / County Office of Education

SFSS: School Financial Services Subcommittee

NOTES

1430 N Street, Room 1801 **September 10, 2012**
Sacramento, CA **10:00 a.m.**

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

Co-Chairs: Peggy O'Guin, California Department of Education
Co-Chairs: Peter Foggiato, California Department of Education - ***Present***
Vice Chair: Tommy Welch, Region IV – Solano COE - ***Present***

Lynette Kerr	I	Humboldt
Judy Thomson	I	Sonoma
De'An Chambless	II	Shasta
Adrian Barron	II	Butte
Kathy Garrison	III	Placer
Barbara Henderson	III	Sutter
Debbie Holden	III	Sacramento
Diane Lacombe	III	El Dorado
Deborah Messervey	III	Nevada
Debbie Wilkins	III	Sacramento
Priscilla Aquino-Dichoso	IV	San Mateo
Sarah Blackstone	IV	Napa
Jeff Potter	IV	Alameda
Karen Deller Hennessy	V	Monterey
Jeri Blote	VI	San Joaquin

Cecilia Belmontes	VII	Madera
Jamie Dial	VII	Kings
Jamie Perry	VII	Fresno
Ann Peters	VII	Merced
Paula Driscoll	VIII	Ventura
Steve Mattern	VIII	Kern
Priscilla Quinn	VIII	Kern
Erin Garcia	IX	Imperial
Brent Watson	IX	San Diego
Cynna Hinkel	X	San Bernardino
Erin Lillibridge	X	Riverside
Marlene Dunn	XI	Los Angeles
Arlene Matssura		CDE
Michelle Plumbtree		FCMAT

1. CDE Report

If the Governor signs SB 1028, then the only mandates that will be left outside of the block grant will be the Graduation requirements, teacher incentive and developer fees. If the Governor does not sign SB 1028, then the current eight that are outside of the block grant will remain outside. Reimbursement for these mandates outside of the block grant fall under the original claiming process.

For purposes of the mandate block grant, every charter is considered an independent LEA. That means that each charter needs to submit a letter for their charter in order to participate in the mandate block grant. If the charter existed in the prior year, they will receive $14 per ADA. A district can submit the letter on behalf of their charters.

A question was asked about conversion charters that did not exist in the prior year. The answer was that the district gets the $28 for those students instead of the charters.

The 12-13 audit guide will not be changed to include any additional requirements regarding mandates. There may be some additions in the 13-14 guide. However, Finance is currently saying they are not planning on proposing the inclusion of any language in the audit guide regarding the mandates.

Basic aid reductions will not be applied against the mandate block grant.

As of this date, CDE has only received 13 letters. The due date for the letters is October 1st.

2. Special Ed MOE Due Date: Follow-up to discussions begun at May meeting

a) In response to a compliance finding from the OIG (Office of the Inspector General), the Special Education MOE Workgroup recommended synchronizing the due dates of the two MOE reports (Budget to Actual and Actual to Actual, which are contained in the SACS software to take advantage of SACS) and the new "Table 8" (a separate report that contains additional Special Education information relating to MOE). Formerly, these reports were due to the Special Education Division at different times, giving rise to discrepancies among them.

b) It is now agreed that the two MOE reports and Table 8 will be due from SELPA Administrative Units (AUs) to the Special Education Division on November 15. Feedback from interested parties indicated that this date allows sufficient time for SELPA AUs to compile member LEAs' SACS MOE reports, while minimizing delays in CDE's ability to pay out IDEA grant awards as early as possible.

c) The SELPA MOE report due dates are normally communicated via the SACS user guide, but since the SACS user guide has already been published (with mention that the due date might change), the Special Education Division will communicate the new due date.

d) CDE notes that since member LEAs' MOE reports are based on each LEA's underlying SACS data, which remains due to CDE from COEs by October 15, the AU's compilation of member LEA reports SELPA-wide should involve no changes to any individual LEA's SACS data.

3. Principal Apportionment Software Updates

a) New fields for Redevelopment

Peter passed out a handout regarding the changes that will occur in the 2012-13 software. See attached.

Changed the title of line 13 so that it refers to the residual distribution. The instructions in the software (and included in the handout) indicate what should be reported on line A13.

Line A-14 will be added for the RDA Asset Liquidation distributions. CDE is tracking this separately since, per education code, this amount is not to be included in calculations until the P-2 certification.

These dollars are not subject to charter-in-lieu.

b) Information only field for Transitional Kindergarten

This field will be added to the 2012-13 attendance software. This will act like the independent study informational fields.

c) New Data collection for Basic Aid Open Enrollment Funding

A field will be added for this item in the 2012-13 software. The use of this field will be explained in the software help. This will actually be a new input screen. The information will be reported by district of residence.

Linda Graves is the person assigned to this task.

d) Disabled Revenue Estimate functionality

CDE is moving ahead on disabling this feature. Because modules related to charter schools have been disabled over the years, and because of categorical flexibility, the usefulness of the estimate functionality is limited.

4. Transitional Kindergarten

a) Reminder that Kindergarten class size penalties do apply

All rules for regular Kindergarten apply to transitional Kindergarten since it is Kindergarten.

b) Are TK students included with Kindergarten for when calculating class size penalties?

All Kindergarten students will be reported the same regardless of identification of transitional or regular.

5. Mandated block grant (MBG)

a) Per the CDE, the State Controller's Office has confirmed that it will accept reimbursement claims for active 2012–13 mandated programs that are not included in GC Section 17581.6(d); however, a sufficient appropriation would be required before payments can be made. As a reminder, legislative session is still in process and the list of mandate programs outside the block grant has not been finalized.

b) http://www.cde.ca.gov/fg/fo/r14/mandatebg12rfa.asp. Mandated programs covered by the MBG are subject to review in the overall annual compliance audit per California Education Code Section 41020. The Governor's Administration has indicated that it does not intend to submit any proposals in the annual K–12 audit guide related to the MBG. Compliance with mandate requirements would be enforced through corrective action; school district would not forfeit funds as a result of audit findings.

6. BASC Meeting

There was a brief discussion about sequestration. Darren will send the handout.

It was reported that the current polling is 50 – 55% for Governor's initiative and 40 – 45% for the Munger initiative. It is felt that this is not a good sign because support typically goes down once ads run.

SSC reported that the recovery is still slow.

Damon presented work on the COE funding model. It follows the concept of the weighted student formula (WSF). Basically, the core programs are tied to the Elementary base funding of the WSF. There would be a targeted funding component based on unduplicated counts of English Language Learners and Free and Reduced price meal students similar to the WSF. The committee was recommending a funding model, not policy.

FCMAT talked about Inglewood. This is the next district that will be going for a state loan. This could be an interesting case study for SFSS of the most recent district needing to apply for a state loan.

Marlene provided more insight into the Inglewood issue. Inglewood has been several years in the making. The COE had disapproved their budget for several years. But, due to AB 114 the COE had to approve the budget last year.

The difference between prior years of disapproving budgets, and this year where they need to apply for a loan, is that this year the district could not get a TRANS. The COE was not able to certify repayment of the TRANS. Inglewood is currently projecting a negative ending fund balance of approximately $10M in 2012-13.

The district has not been able to reduce expenditures. In addition, they are losing about 400 to 500 ADA every year. The district claims that they are losing the ADA to charters, though data does not support it.

The appropriations committee questioned the role of the fiscal advisor and why the emergency loan could not have been avoided. The COE was able to explain the correct role of the fiscal advisor.

It is projected that they will have a negative cash balance of about $20 to $30 million. However, will take time to turn the district around, plus the $5.2M in annual debt service, plus additional cost of state administrator and other things, and so the loan amount is sized to be about $55M.

7. AB 2197 – sample questions from Government Financial Strategies

The working document was shared as an attachment to the agenda. Explained that this was simply a sharing of tools. It would be helpful if any COEs had a debt review checklist that they could share with the rest of us.

8. FCMAT County Office Procedures Manual

The process for the current year is almost completed. It was stated that Humboldt and El Dorado found the new CEA procedure to be very helpful when they needed to work with their districts this year regarding this issue.

Still working on some of the procedures. We need to submit the draft procedures to FCMAT within a couple of weeks.

It was stated that the more examples that can be included in the procedures the better. However, make sure to send any examples to Lynette in its native document and not pdf.

9. Roundtable Discussions

a) Fall Conference: AM: Technical, PM: Art meets Science.

- **Oct 15 (Monday): San Bernardino County Office of Education**
- **Oct 19 (Friday): Yolo County Office of Education**
- **SFSS/ESSCO AM session 1: Cash Flow – nuts & bolts, what to look for (~ 75 minutes)**

  The format will be along the lines of AB 1200 review of cash flow, not be how to build a cash flow. In other words, what do we ask for from our districts, what do we look for when we do our reviews, etc. Plan to discuss experiences in reviewing cash flows and then what were actions have been taken to address the cash flow shortage. The hope is that this will be an interactive session with audience participation.

- **SFSS/ESSCO AM session 2: quartile analysis, profiles, one-note system (~ 75 minutes)**

  Kate will be presenting the use of this analysis from her experience and from her perspective at Marin. Then San Bernardino will cover how they use a quartile analysis with weighting. Then second part will be regarding use and format of district profiles and using One Note software. It was requested that we send Darren any examples of district dashboards, profiles, etc. before the conference so they can be included in the materials.

Registration is currently online. Website: CSSESA.org. It is under the training menu, AB1200 conference.

b) Budget Reviews: conditional approvals & non-approvals

It was noted that the COE of a single adoption district does not have to file a public notice regarding the public hearing where they will be adopting a revised budget in response to a conditional approval or non-approval.

c) Financial systems – District status.

It was asked of the group if they had districts that were on a financial system other than the county financial system, and if they did, was the status of "fiscally independent" required to be on the separate system. The feedback provided was that several COEs have districts that are on a financial system other than the county financial system and that those districts did not have a status of fiscally independent or fiscally accountable.

d) RDA Session feedback.

Michelle asked for feedback on the conference. FCMAT is also looking to find out what kind of support that we still need regarding this topic. Some feedback provided.

DRAFT **Taxes Report** DRAFT

County: Alameda	Fiscal Year: 2012-13
District: Alameda Co. Office of Education	P-1
CDS CODE 01 10017	Certificate Number: 289F3561

County of Residence **01 Alameda**

District of Residence **61119 Alameda City Unified**

E.C. 41760.2

Revenue and Taxation Code sections 95 - 100.9 (applicable to county taxes), and 75.70 (applicable to school district taxes)

Tax Type			School District
Secured	A-1	$	1
Unsecured	A-2	$	1
HOX Subventions	A-3	$	1
Misc. Taxes/Other Appropriate Local Revenues or Subventions	A-4	$	1
Distribution of Timber Yield Taxes	A-5	$	1
Distribution of Prior Year Taxes	A-6	$	1
Release of Prior Year Tax Impounds [E.C. 14240]	A-7	$	1
Supplemental Taxes from Increased Assessment [Revenue and Taxation Code sections 75.70-75.72]	A-8	$	1
Educational Revenue Augmentation Fund	A-9	$	1
Prior Year Restricted Monies [E.C. 2558(e)]	A-10	$	0
Total (Sum of A-1 through A-10)	A-11	$	9

Education Code Section 2558 (c), applicable to county taxes
Education Code Section 42238 (h) (6), applicable to school district taxes

Community Redevelopment Funds	A-12	$	0
Redevelopment Property Tax Trust Fund Residual Distributions [Health and Safety Code sections 34183(a)(4), 34183.5(b)(2)(A) and 34188]	A-13	$	0
Redevelopment Agency Asset Liquidation [Health and Safety Code sections 34177 and 34179.6]	A-14	$	0
College Districts ERAF	A-15	$	0
Excess ERAF	A-16	$	0

If data entered on any line is negative, please provide an explanation for each negative value.

DRAFT 2012-13

Tax instructions

Taxes

To access the Taxes entry screen, open the Taxes entry screen from the Entry Screens grid.

Enter taxes for the selected period into this screen.

NOTE: See Changing Periods for information about changing the reporting period.

You must add a new record or select an existing record before you can enter data into the Taxes screen.

After you enter data into the screen, you can save, delete, cancel, or close the record; click on one of the **See Also** links for more information.

You can print Taxes reports that display County and School District taxes from this entry screen.

Taxes reported are pursuant to Part 0.5, Chapter 3.5, Article 7, Section 75.70, et seq, and Chapter 6, Articles 1-6, Section 95 et seq of the *Revenue and Taxation Code*, and Part 24, Chapter 7, Article 2, Section 42238(h) of the *Education Code*. School district taxes are reported on a cash rather than accrual basis. Please report whole dollars only.

County taxes allocated for purposes of the Child Development Fund must be included in Lines A-1, A-2, and A-4.

Any county taxes disbursed to the county superintendent of schools of another county must be entered on the Taxes entry screen.

Those counties whose prior year tax income was in excess of the prior year county school service fund revenue limit plus the prior year county operated ROC/P revenue limit shall report the excess in Line A-10.

Tax amounts entered for **P-1 and P-2** should include the reporting county office and any taxes being **disbursed** to other county offices. You must add a new record for each county to which you are disbursing.

Tax amounts entered for **Annual** should include the reporting county office and any taxes being **received** from other county offices. You must add a new record for each receiving county.

The following table describes the fields in this screen.

Line No.	Field	Field Description
E.C. 41760.2		
Revenue and Taxation Code sections 95-100.9 (applicable to county taxes), and 75.70 (applicable to school district taxes)		
A-1	Secured	Amount of secured taxes (including old area wide taxes to school districts).
A-2	Unsecured	Amount of unsecured taxes (including old area wide taxes to school districts).
A-3	HOX Subventions	Amount of the state subventions to be received for purposes of homeowner's exemptions.
A-4	Misc. Taxes/ Other Appropriate Local Revenues or Subventions	Amount of Miscellaneous Taxes/Other Appropriate Revenues or Local Revenues Subventions. A partial list of Miscellaneous Taxes and Subventions to be reported in A-4 is as follows: ▪ Business or Professional Records Assessed Valuation Reduction ▪ Church Parking Lot Exemption ▪ Veteran's Property Tax Exemption ▪ Tax Deeded Land for Highway Rental ▪ Housing Authority
A-5	Distribution of Timber Yield Taxes	Amount of Timber Yield Tax.
A-6	Distribution of Prior Year Taxes	Amount of *prior* fiscal year penalties, interest, delinquent property taxes, and property tax redemption monies collected and disbursed in the current year.
A-7	Release of Prior Year Tax Impounds [E.C. 14240]	Amount of prior fiscal year tax impounds released and disbursed in the current year as pursuant to *Education Code* Section 14240.
A-8	Supplemental Taxes from Increased Assessment	Amount of supplemental taxes generated by increased assessments per Revenue and Taxation Code sections

DRAFT 2012-13
TAX Instructions

	[Revenue and Taxation Code sections 75.70-75.72]	75.70-75.72. Current and prior year Supplemental Taxes are reported in the fiscal year these taxes are collected. Supplemental taxes cannot be distributed to basic aid school districts [Revenue and Tax Code section 75.70(2)]. Also, supplemental taxes cannot be allocated to school districts that are not members of the county' s public school system [Revenue and Tax Code section 75.70(d)(1)]. Per Revenue and Tax Code section 75.70(e), the SPI annually notifies county auditors of the Advance Apportionment ADA used to allocate supplemental taxes, and as required, the ADA for basic aid districts, and out of county districts' ADA is set to zero.
A-9	Educational Revenue Augmentation Fund	Based on the information provided by the County Superintendent of Schools and School Districts, the amount of the Educational Revenue Augmentation Fund (ERAF) disbursed to the county's school districts and county office of education.
A-10	Prior Year Restricted Monies [E.C. 2558(e)]	Amount of prior year restricted monies pursuant to *Education Code* Section 2558(e). **NOTE:** This entry field is only available for County tax types.
A-11	Total	After clicking **Save**, displays the calculated totals of the taxes reported in Section A.
A-12	Community Redevelopment Funds	Amount for community redevelopment funds that meet the requirements of *Education Code* sections 2558 (c) (5) (applicable to county taxes) and 42238(h)(6) (A) (applicable to school district taxes).
A-13	Redevelopment Property Tax Trust Fund Residual Distributions [Health and Safety Code sections 34183 (a)(4), 34183.5 (b)(2)(A) and 34188]	Amount of remittances of excess revenues allocated from the Redevelopment Property Tax Trust Fund that are distributed pursuant to Health and Safety Code sections 34183 (a)(4) and 34188. Also includes any amounts remitted pursuant to Health and Safety Code Section 34183.5 (b)(2)(A) in the current year.
A-14	Redevelopment Agency Asset Liquidation [Health and Safety Code sections 34177 and 34179.6]	Amount of remittances from unencumbered balances [Health and Safety Code Section 34177 (d)] and proceeds for asset sales and other related funds due to the wind down of Redevelopment Agency (RDA) affairs [Health and Safety Code Section 34177 (e)]. Includes additional amounts remitted pursuant to a determination by the Department of Finance [Health and Safety Code Section 34179.6 (f)].
A-15	College Districts ERAF	Amount of Educational Revenue Augmentation Fund (ERAF) disbursed to the California Community Colleges. **NOTE:** This entry field is only available for County tax types.
A-16	Excess ERAF	Amount of excess Educational Revenue Augmentations Funds within each county before allocation to the county superintendent of schools for special education programs. **NOTE:** This entry field is only available for County tax types.

NOTE: If data entered on any line is negative, please provide an explanation for each negative value.

See Also

Adding a New Tax Record

Copying Tax Data from P-1 to P-2

Saving Records

Deleting Records

Canceling Records

CALIFORNIA
DEPARTMENT OF
EDUCATION

TOM TORLAKSON
STATE SUPERINTENDENT OF PUBLIC INSTRUCTION

August 27, 2012

Dear County and District Superintendents and Charter School Administrators:

2012–13 MANDATE BLOCK GRANT LETTER OF INTENT

Commencing with the 2012–13 fiscal year, funds are available through a newly established Mandate Block Grant (MBG) for local educational agencies (LEAs) to support state mandated activities. Pursuant to the implementing legislation, Senate Bill (SB) 1016, Section 71, (Chapter 38, Statutes of 2012), LEAs make an annual choice to receive funds for mandated activities, as specified, either through the MBG or through the claim reimbursement process pursuant to *Government Code (GC)* Section 17560. Because the claims process does not include charter schools, the MBG is the only vehicle for charter schools to receive such funding.

Attached is the Letter of Intent, specific to your LEA, to opt into the 2012–13 MBG program. It must be submitted to CDE by October 1, 2012 to receive 2012–13 MBG funding.

For 2012–13, the MBG pays for 2012–13 costs associated with the mandate programs listed in GC Section 17581.6(d) (see attached). However, note the legislative session is still in process and based upon current proposals, it is likely the following programs may be added to the MBG:

- Academic Performance Index (01-TC-22; Chapter 3 of the Statutes of 1999, First Extraordinary Session; and Chapter 695 of the Statutes of 2000).
- Child Abuse and Neglect Reporting (01-TC-21: Chapters 640 and 1459 of the Statutes of 1987; Chapter 132 of the Statutes of 1991; Chapter 459 of the Statutes of 1992; Chapter 311 of the Statutes of 1998; Chapter 916 of the Statutes of 2000; and Chapters 133 and 754 of the Statutes of 2001).
- Expulsion of Pupil: Transcript Cost for Appeals (SMAS; Chapter 1253 of the Statutes of1975).
- Inter-district Attendance Permits (CSM 4442; Chapters 172 and 742 of the Statutes of 1986; Chapter 853 of the Statutes of 1989; Chapter 10 of the Statutes of 1990; and Chapter 120 of the Statutes of 1992).
- Student Records (02-TC-34; Chapter 593 of the Statutes of 1989; Chapter 561 of the Statutes of 1993; Chapter 311 of the Statutes of 1998; and Chapter 67 of The Statutes of 2000).

Given the uncertainty of legislation that may impact the 2012–13 MBG program, an LEA may withdraw a previously submitted Letter of Intent as long as the request is prior to any allocation by CDE of MBG funds. Information on the MBG and legislative changes will be posted on the CDE Web page at http://www.cde.ca.gov/fg/aa/ca/mandatebg.asp.

The 2012 Budget Act appropriates $166,609,000 for the MBG program for fiscal year 2012–13. The funds are unrestricted in use. Allocation of funds is based on the average daily attendance (ADA) as of the Second Principal Apportionment for the 2011–12 fiscal year. Specific ADA categories are attached to this e-mail and also posted on the CDE Web page. The 2012–13 funding rates set forth in Item 6110-296-0001 of the 2012 Budget Act are as follows:

LEA	Amount per Prior Year ADA
County Offices of Education (COE)	$28 per prior year ADA plus an additional $1 per ADA for all prior year revenue limit ADA generated by school districts and the COE within that county
School Districts	$28 per prior year ADA

Charter Schools	$14 per prior year ADA

If necessary, funding will be proportionately reduced to stay within total available funding. We have been asked what the rate would be if there is 100 percent participation. CDE estimates the funding would be decreased to approximately $27.92 for districts, $13.96 for charter schools, and $.99 for county office of education oversight.

Mandated programs covered by the MBG are subject to review in the overall annual compliance audit per California *Education Code* Section 41020. The Governor's Administration has indicated that it does not intend to submit any proposals in the annual K–12 audit guide related to the MBG. Compliance with mandate requirements would be enforced through corrective action; school district would not forfeit funds as a result of audit findings.

CDE will post a list of LEAs that have submitted a Letter of Intent to participate in the MBG. As a reminder, follow-up e-mails will be sent prior to the deadline to those LEAs that have not submitted a Letter of Intent. If your LEA does not elect to participate in the MBG, you may notify CDE of that decision by sending an e-mail to mandate@cde.ca.gov and your agency will be removed from the 2012–13 contact list. If you have any questions regarding this letter, please send an e-mail to mandate@cde.ca.gov or contact Marcie Gregory, Fiscal Consultant, Categorical Allocations and Management Assistance Office, by phone at 916-324-4537, or Tonya Holmes, Fiscal Analyst, Categorical Allocations and Management Assistance Office, by phone at 916-323-6028.

Sincerely,

Scott Hannan, Director
School Fiscal Services Division

Last Reviewed: Wednesday, August 29, 2012

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FAX TRANSMISSION

TO: **MICHAEL HULSIZER**

FROM: BOB CANAVAN

DATE: 8-27-12

No. Pages including cover: 2

Here's the NAFIS article by John Forkenbrock which explains the impact of sequestration on Impact Aid school districts and their efforts to protect the initial impact aid payments to school districts for the first 6 months of the upcoming fiscal year.

Fork's Focus

Someone, Anyone, Cut the Wire!

The clock is ticking. As I write this column, my mind turns to watching one of those action movies where a bomb is set to go off in less than 10 minutes and our hero begins to deactivate the bomb with less than 2 minutes before – BOOM. If he or she (heroes come in both genders) fails, both the hero and hundreds – maybe even thousands – of innocent people will be blown-up. As the movie continues and the clock begins to tick, our hero cuts the blue wire (not the red, black, brown, green or yellow wire) and the bomb is deactivated and everybody lives. How he/she knew to cut the blue wire is never clear. The movie ends and our hero gets the girl/guy, I get up from my seat, and head for my car.

So too is the sequester bomb [the Big Bomb (BB) as I call it] ticking – tick-tick-tick. To make matters worse, a second, although less powerful bomb, the Little Bomb (LB) will, it appears, also be activated – the Continuing Resolution (CR). The BB has far greater consequences than does the LB, but together, the damage they will produce will reverberate throughout the Impact Aid community. Some parts of the community will feel the impact of the explosion more than others depending on how close they are to ground zero, but even those parts of the Impact Aid neighborhood just on the periphery will also feel the impact.

Today is August 20th, so counting down from today, let's quickly take a look at each of the explosive devices and determine exactly when the clock will strike zero setting off the explosion:

The BB is set to detonate in 135 days (January 2, 2013). The LB has yet to be activated, but the assumption is that the clock will be set sometime before October 1. Using the October 1 date, it means in just 41 days the LB will detonate.

So, let's measure the impact of both devices – not just one. For example, the community has dealt with the CR (LB) device before – almost every year – but we have never in recent years had to prepare for both devices going off within a 60-day period - LB on October 1 and the BB on January 2. The simple calculation below describes the impact this double detonation will have on Impact Aid – a current year-funded program. Certain parts of the Impact Aid community will be affected more than others, especially those that request (need) an early "initial" payment before January 1.

The plan for a CR calls for it to cover a six-month period (October 1, 2012 – March 31, 2013) and fund programs at their current level. Applying that to the Impact Aid funding stream, we know that last year, the Department paid out by April 1, 2012 initial FY 2012 payments at 85% LOT. This required a total Section 8003 expenditure of $812,339,682. Using the same dollar level payout but factoring in the impact of the BB only using a high water mark of $50,000,000 in explosives (half of its total fire power) – the dollar availability would drop to $762,339,682.

Now let's add the LB. The Section 8003 dollar availability drops to half of the FY 2012 level of $1,153,539,682 or $576,769, 841; less $50,000,000 to account for the BB. Our new dollar figure after the detonation of both devices equals $526,769,841.

If both devices are detonated the program loses another $235,569,841 meaning that the Department of Education will between October 1, 2012 and March 31, 2013 have $526,769,841 to allocate in 8003(b)(1) and 8003(b)(2) payments as compared to the $812,339,682 that was available even before March 31, 2012.

NAFIS estimates the Impact Aid Program Office, to play it safe, could only make initial b1 and b2 payments at a LOT percentage using the combined blast of the BB and LB at 45-percent, a 40-percent reduction from the initial LOT percentage payout last year. A 45-percent initial LOT payment to some districts will mean in a worst-case scenario closing the doors unless a line of credit can be worked out on or about January 1, 2013. In other districts, it will mean staff reductions in mid-year or eliminating various program offerings, extra-curricular programs, supplies, forgoing some building maintenance and or much needed school bus replacement. In response to a combined survey conducted by NAFIS and the American Association of School Administrators (AASA), more than 300 federally connected school districts responded describing the impact the impending cuts will have on their school districts. The detonation of both devices will also mean over 50-percent of funds available for Section 8002 payments will be off the table between October 1 and March 31 impacting the ability of the Department to make foundation payments to districts needing funding in the first half of the school year.

Can a hero come in just before the explosion and cut the wire? Looking at the LB device first: probably not before the 113th Congress convenes. Knowing it takes at least 60 days before a new Congress gets organized, the passage of a full-year appropriations probably won't occur before mid-March. As for the BB the sequester device, there are opportunities for the wire to be cut. It could happen between September 10 and the end of the year. It's a matter of whether or not a superhero (heroine) will come forward and deactivate the BB. At the moment, there are a number of potential superheroes and heroines as they talk about the damage the BB will cause, but none are prepared to throw on their superhero/heroine uniform to fly in to cut the wire to the BB. Perhaps, like in the movies, they will wait until January 2.

Is anybody doing anything to minimize the damage? Yes – NAFIS. We met with officials from the Impact Aid Program Office (IAP) and the Department's budget office and the Office of Management and Budget (OMB) coordinated by IAP at our request. IAP confirmed that 45-percent is a good estimate on what an initial payout will be based on half of the sequestration factored into a six-month continuing resolution, i.e. a combined BB/SB explosion. We asked that OMB grant the Department authority to spend out at what historically they would spend out by the first of April under a full-year appropriation. We estimate with sequester still hanging in the wings if they could get OMB clearance to make payments using additional dollars, they could increase the initial payout to 65-percent. The Department's budget office is "working on it. We are meeting with House/Senate Appropriations staff later this month to share with them our discussion with Education/OMB in hopes language can be included in the CR granting Impact Aid additional funding above what otherwise would be made available under the six-month CR.

NAFIS is trying to find ways to increase the initial payment amount above 45-percent and the Department is exploring options. Some districts have no idea what they are going to do if their initial payment is at a 45-percent payout. Although NAFIS doesn't have the ability to defuse either the BB or LB, we are trying everything possible to minimize the damage. I'm going to need a "Big Gulp" and two large buttered popcorns before this movie is over.

&BRUSTEIN
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SEQUESTRATION CHEAT SHEET

(UPDATED JULY 23, 2012)

What is Sequestration?

Generally, in U.S. law, sequestration is a procedure by which an automatic spending cut is triggered, first initiated in a federal budget in 1985 by the Gramm-Rudman-Hollings Balanced Budget Act. There have been 5 times in previous history where a sequestration has been triggered.

In current discussion, "sequestration" or "the sequester" are terms used to describe the automatic budget cuts passed into law under the Budget Control Act (BCA) in August 2011. The Budget Control Act contained new agreements on spending levels and the debt ceiling and created a Congressional Debt Supercommittee (formally known as the Joint Congressional Committee on Deficit Reduction). This Supercommittee, made up of members from the House and Senate on both sides of the aisle, was instructed to cut at least $1.5 trillion from the federal budget. If the Supercommittee failed to present an agreement containing cuts of at least $1.2 trillion over the next ten years, the BCA triggered automatic budgetary cuts. The Supercommittee met a number of times but ultimately failed to come to any agreement, citing irreconcilable differences over the issue of whether to reduce federal debt levels by increasing taxes (raising revenues) or reducing spending.

The automatic cuts were designed to make up for the total amount below $1.2 trillion that the Supercommittee failed to cut. Since the Supercommittee recessed permanently in November of 2011 without coming to any agreement, the sequestration cuts are set at $1.2 trillion, spread between January 2013 and October 2021.

How Does Sequestration Work?

The final amount of sequestration program cuts is calculated through a number of steps:

(1) **Calculate the total adjusted amount of deficit reduction needed.** Though the ultimate amount of the reduction will be $1.2 trillion, this includes both cuts in spending and savings on interest on the national debt as treasury expenditures will be lower. This interest savings is estimated at 18% of the total, leaving us with a deficit reduction target of $984 billion.
(2) **Divide the remainder by year.** The $984 billion is divided evenly among the years over which the cut is to take place (2013 – 2021). This leaves about $109 billion per year.
(3) **Take this number and divide evenly between defense** ("function 050") **and non-defense** ("function 500") **spending** – about $54.5 billion each.
(4) **Remove exempt programs** (see below) **from the calculation**.
    a. Mandatory spending (entitlements and similar benefits) is exempt or limited to specific cuts (e.g. cuts to Medicare are limited to 2%)

    b. There are specific cuts to non-defense discretionary spending for implementation of the Patient Protection and Affordable Care Act (PPACA) and more.

(5) **In fiscal year** (FY) **2013, apply the remaining dollar number in equal percentage cuts across the board.**

(6) **In other years, lower the discretionary spending caps** (known as 302(b) caps, these are the total amount that each account is allowed, and the total number each appropriations subcommittee is given to work with) **by the sequester amount.** The lowering of the caps allows the cuts to be distributed by appropriators on a program-by-program basis rather than across the board.

(7) **If in any future year the caps are broken** (if spending bills are passed that go above that limit), **automatic across the board cuts are once again triggered.**

*What programs are exempt?**

Many accounts and programs are exempt from sequestration. Most exemptions arise from pension and other entitlements or obligations (e.g. Social Security benefits, railroad retirement benefits, all Department of Veterans Affairs program, and payments to all pension and special compensation programs operated by the federal government). Some are purely fiscal in nature (no reduction of payments for interest on national debt, no reduction to refundable income tax credits). Many 1930's-era social and economic stability programs are also exempt (Farm Credit System Administration and crop insurance, the FDIC Deposit Insurance Fund).

In addition, there are a large number of "low-income assistance" programs that are exempt from cuts under Title II of the U.S. Code. These include:

- ACG/SMART Grants
- Child Care entitlement grants to States
- All Child Nutrition program (except special milk programs)
- Children's Health Insurance Program (CHIP)
- Commodity Supplemental Food Program
- Some Pell grants, for the first year of cuts only
- Medicaid
- Supplemental Nutrition Assistance Program (SNAP)
- Supplemental Security Income Program (SSI)
- Temporary Assistance for Needy Families (TANF)

*This is not a complete list. The full list of exemptions to sequestration, including account numbers, is available at 2 U.S.C. 905.

How much money does sequestration cut?

The total amount of cuts under sequestration is defined as a dollar amount which must be applied to each year's appropriation; in FY2013 cuts are applied regardless of how much money is actually appropriated for that fiscal year. Exempt mandatory spending, including entitlements, also varies in cost from year to year, and as yet it is not clear what appropriations for these programs will be several years down the road. Reductions in funding to programs and States may also interact with funding formulas and hold harmless provisions in unanticipated ways. Because there are so many variables dependent on politics and Congressional action, it is difficult to determine the exact cut to each program in the future.

In addition, decisions made by appropriators in future years (when sequestration is not realized as an across-the-board cut) may change the fate of specific programs.

The non-partisan Congressional Budget Office (CBO) estimates that for FY 2013 the cut will be between 5.5 and 7.8% based on current funding levels, representing a cut of up to $3.5 billion for education programs. Secretary of Education Arne Duncan has submitted testimony to Congressional committees which assumes approximately 7.8% in cuts, per the calculations of the CBO. The Center for Budget and Policy Priorities (CBPP) has put cuts at between 8 and 8.4%. And advocates have presented a worst-case scenario of 9.1% ($4.1 billion) in cuts, assuming that FY 2013 funding levels are the same as FY 2012. At 9.1%, cuts could amount to $1.3 billion in cuts to Title I, $225 million to Title II, $1.1 billion to IDEA Part B, and $158 million to Career Tech and Adult Education.

When will sequestration go into effect?

The President is required to issue a sequestration order, which will have immediate effect, no later than January 2, 2013. Originally, advocates assumed that a sequestration order would apply not only to funds appropriated for FY 2013, but also to advance-funded programs where FY 2012 advance funds remain unobligated as of January 2. This would affect funding for the five major education programs which receive FY 2012 advance funding: ESEA Title I and II, Impact Aid, IDEA Part B, and CTE State Grants.

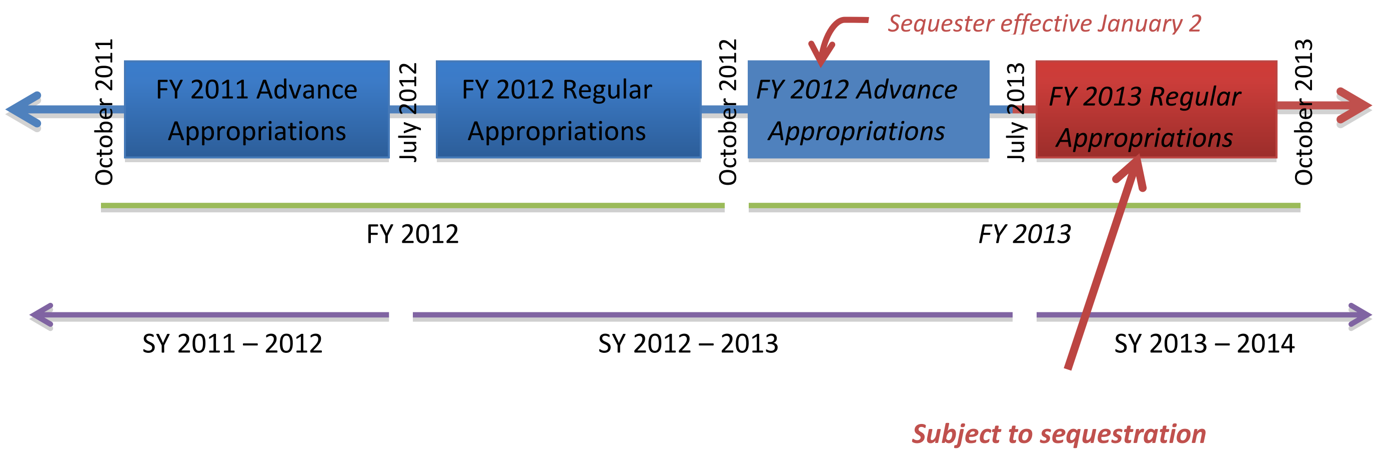
However, in a July 20, 2012 memorandum to Chief State School Officers, Deputy Secretary of Education Anthony Miller stated that advance funds – with the exception of Impact Aid – would not be subject to sequestration when allocated. Instead, Miller writes, "… the Department will take the sequester from funds that would become available in July 2013 for school year 2013-14, not from the 2012 advance appropriations available in October 2012. The amount of the reduction will be calculated by applying the sequester percentage… to the fiscal year 2013 budgetary resources from both the 2012 advance appropriations and the 2013 regular appropriations that are available …. The calculated sequester amount will then get subtracted from the July 2013 funding." As a result, States and districts would not feel the impact of sequestration during the 2012-13 school year – Miller asserts that "there is no reason to believe that a sequestration would affect funding for the 2012-2013 school year – though the effect of the cuts may be amplified in July 2013 as cuts from both the 2012 advance funds and 2013 regular appropriations would be applied to that pool of funds.

How can sequestration be avoided?

Because sequestration was put into place by an act of Congress, another act of Congress is required to undo the trigger. This can be an independent item of legislation or a budget bill which explicitly replaces sequestration. Just passing another budget bill, however, will not erase sequestration as the cuts are meant to be applied to funding levels set during regular appropriations in FY 2013, or incorporated into the appropriations process from FY 2014 – 2021.

Sequestration was originally intended to be a threat – a worst-case scenario that would force the parties to negotiate realistically. President Obama and Speaker of the House John Boehner (R-OH) have said that they will not allow Congress to circumvent this measure of accountability, but growing pressure from advocates and industry – especially the defense industry – may force them to change their minds. Most members of Congress are in agreement that the sequester must be repealed and replaced with a more carefully considered system of cuts. But how those cuts are distributed and how deep they go is still a matter of debate.

Appropriations Years Subject to Sequestration (by date of availability of funds)



FY 2011 Advance Appropriations became available at the beginning of FY 2012 (October 1, 2011)
FY 2012 Regular Appropriations will become available during FY 2012 (July 1, 2012)
FY 2012 Advance Appropriations will become available at the beginning of FY 2013 (October 1, 2012)
→ Per a July 20 memorandum from the Department of Education, these funds will not be subject to sequestration
FY 2013 Regular Appropriations will become available during FY 2013 (July 1, 2013)
→ All funds will be subject to sequestration

Program Years Subject to Sequestration for Certain Programs (in billions of dollars)

Program	2011 Advance	2012 Regular	2012 Advance	*2013 Regular*	*2013 Advance*
Title I	10.8	3.7	10.8	?	?
IDEA	8.6	2.3	9.3	?	?
Perkins/CTE	.8	.3	.8	?	?
Title II	1.7	.8	1.7	?	?

Advance funding represent 75% of the year's federal appropriation for these programs, with 25% coming from regular year appropriations. Per the July 20 memorandum, FY 2012 Advance Appropriations will not be subject to sequestration.
FY 2013 Regular appropriations and all subsequent appropriations are subject to sequestration regardless of the date of obligation.

_______________________________ SCHOOL DISTRICT
SECTION Q – AB 2197 DISCLOSURES
NON-VOTER-APPROVED DEBT REVIEW
FOR THE YEAR ENDING JUNE 30, ______

Work Program Step	**Initials**	**WP Ref**

OBJECTIVES

EC § 17150.1 No later than 30 days before the approval by the governing board of the school district to proceed with the issuance of certificates of participation and other debt instruments that are secured by real property and do not require approval of the voters of the school district, the school district shall notify the county superintendent of schools and the county auditor. The superintendent of the school district shall provide information necessary to assess the anticipated effect of the debt issuance including the repayment schedules for that debt obligation, evidence of the ability of the school district to repay that obligation, and the issuance costs, to the county superintendent, the governing board, the county auditor, and the public. Within 15 days of the receipt of the information, the county superintendent of schools and the county auditor may comment publicly to the governing board of the school district regarding the capability of the school district to repay that debt obligation.

A. Determine that the district has provided evidence sufficient to assess the anticipated effect of the issuance. (Completeness, Disclosure)
B. Determine the type of, and reason for issuance. (Classification, Rights & Obligations)
C. Determine that schedules provided are complete and accurate. (Completeness, Accuracy)
D. Determine whether issuance and annual costs are reasonable. (Disclosure, Valuation)
E. Determine the likely capability of the District to repay the debt. (Disclosure, Valuation)

PROCEDURES	Initials	W/P Ref.
Q.1 Complete the checklist for Non-Voter-Approved Debt issuance documentation.	________	________
Q.2 Examine documentation for the reason for issuance. Is the reason for issuance appropriate, allowable and reasonable?	________	________
Q.3 Review the work performed on the District's most recent reporting period (Interim, Budget, Unaudited Actual.) Note any issues that would have a bearing on the ability of the district to issue new debt, or to refinance existing debt.	________	________
Q.4 Provide information to the County Auditor/Controller - Treasurer/Tax Collector's office if they have not received documentation.	________	________

Work Program Step		Initials	WP Ref
Q.5	Compare Financial projections (MYP) provided with the debt submission to those of the latest reporting period. Determine whether there are significant differences between the two sets; determine if debt service relating to the disclosure has been included.	________	________
Q.6	Review proposed debt service schedules. Do payments vary from year-to-year? Consider the impact of this proposed schedule in conjuction with existing debt. Will debt service remain fairly static? Prepare a schedule of debt if appropriate.	________	________
Q.7	Consider the proposed sources of repayment. Are the assumptions provided regarding sources and expected growth/decline reasonable? Compare to historic trends where appropriate.	________	________
Q.8	Examine cash flow projections relating to the disclosure information. Determine whether the projected debt schedule will substantively adversely impact the district's cash position in the months requiring payments.	________	________
Q.9	Review costs associated with the prospective issuance. Are expenses relating to issuance comparable to other issuances seen recently? Do amounts seem reasonable? Inquire of experts when appropriate and compare to like issuances from various regions around the state. http://www.emma.msrb.org/	________	________
Q.10	Determine whether costs are being paid for out of the issuance or if additional cash outlay is required of the district at the time of sale or closure.	________	________
Q.11	Inquire of the district before the end of the comment period whether any additional information is available which should be disclosed. Determine whether the information substantially modifies or impacts the proposed debt.	________	________
Q.12	Obtain supporting documention for historical reserves, cash balances, enrollment, and any other information to be included in the District's comment letter.	________	________

Work Program Step	Initials	WP Ref
Q.13 Inquire of the County Auditor/Controller-Treasurer/Tax Collector's office whether they have items to add to the District's Comment letter.	________	________

CONCLUSION

Q.14 Summarize findings and prepare conclusion.	________	________

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Prepared by	Date
____	________
Reviewed by	Date