



January 29, 2009

Bulletin No. 09-060

TO: Chief Business Officials & Directors of Fiscal Services  
K-12 & ROPS  
San Bernardino County School Districts

SUBJECT: **2008-09 SECOND INTERIM FINANCIAL RPT ASSUMPTIONS  
GOVERNOR'S BUDGET 2009-10 AND 2008-09 MID-YEAR REVISIONS**

With the release of the Governor's Proposed 2009-10 Budget and Mid-Year Revisions, our office is advising districts to utilize the following points as they develop the 2008-09 Second Interim Reports and required multi-year projections for 2009-10 and 2010-11, as well as their 2009-10 proposed July Budget:

In an effort to solve a \$41.7 billion deficit, this proposal has significant provisions that impact both fiscal year 2008-09 and the 2009-10 budget year. For education, this translates into cuts of approximately \$6.3 billion. The Governor's proposal reflects the beginning of a long process which will culminate in a final budget adopted by the Legislature and signed by the Governor. Currently, there is little consensus between the Governor and the Legislature relative to actions necessary to balance the budget. There may be many changes prior to a signed budget. The Governor's budget proposal is the only written proposal available; thus, our advice is based on this proposal. County Offices of Education (COE) chief business officials recognize that review and approval of budgets and interim reports require an analysis that involves many factors, including the State Board of Education's adopted Criteria and Standards and the FCMAT Predictors of School Agencies Needing Intervention.

#### **REVENUE LIMIT, SPECIAL EDUCATION AND CATEGORICAL PROGRAM COLAs**

These are extraordinary times for school finance given the state budget structural deficit, the weak economy, the instability of financial markets, the increase in unemployment, a history of unfunded or partially funded COLAs in prior years, and other factors such as past and potential future mid-year cuts to funding. In recognition of these pressures on school funding, we recommend that school districts use the School Services of California Financial Projection Dartboard in development of their 2008-09 Second Interim Report, their multi-year projections and their 2009-10 Budget for both the revenue limits and categorical programs. The SSC dartboard has footnoted and addressed any differences in recommended COLAs for special education or categorical funds.

<b>School Services of California Dart Board</b>					
---	--	--	--	--	--

Factor	2007-08	2008-09	2009-10	2010-11	2011-12
Statutory COLA &	4.53%	5.66%	5.02%	.50%	2.00%
K-12 RL Deficit %	0.0%	9.685%	16.161%	16.161%	16.616%
State Categorical COLA/Deficit	4.53%	0%	0%	.5%	2.00%
Special Ed COLA on state/local share only	4.53%	0.0%	0%	.5%	2.00%
California Lottery*					
Non-Prop 20 (RS 1100)	\$114.75	\$109.50	\$109.50	\$109.50	\$109.50
Prop 20 Restricted (RS 6300)	\$ 16.10	\$ 11.50	\$ 11.50	\$ 11.50	\$11.50
California CPI	3.5%	2.90%	1.70%	2.70%	2.90%
Interest Rate for 10 yr treasury	4.01%	3.33%	3.55%	4.44%	4.8%

\*Lottery funding is based on prior year annual ADA times the historic statewide average excused absence factor of 1.04446.

### CATEGORICAL PROGRAM FLEXIBILITY

The Governor's proposal makes mid-year cuts to the revenue limit and provides flexibility to help lessen the impact of those cuts. This approach differs from that of the stated approach by the Legislature. The Legislature would apply reductions to specific programs and not allow the same level of flexibility as the Governor. There will be significant debate over flexibility provisions prior to any agreement. It is difficult to project with any accuracy those flexibility provisions that will survive the debate. COEs are concerned about the flexibility proposals initiated by the Governor and would caution school districts about the inclusion of many of those proposals in the 2008-09 Second Interim Report and the 2009-10 budget. We have significant concerns about utilizing the Governor's proposed flexibility, especially in the areas of CSR, EIA, Adult Ed, ROP and Special Education.

If districts elect to utilize the flexibility proposals, an alternative set of assumptions must be provided to this office with details of additional expenditure reductions that would be implemented if categorical program flexibility does not materialize. We believe that a more prudent approach would be to build the Second Interim projections assuming the most conservative scenario, which could be no flexibility, the Governor's proposal, or targeted cuts to the categorical programs as proposed by the Legislature in SBX1. District boards could consider adopting a list showing program restorations that would be made if any proposed flexibility option is approved. It is our understanding that programs generated by initiatives (ASES) and legal settlements (QEIA, Valenzuela, and Williams) will not be included in any final flexibility provisions.

It is more likely that the elimination of the Deferred Maintenance (DM) match requirement and the reduction of the Routine Restricted Maintenance Account (RRMA) set-aside requirement from 3% to 1%, will survive. However, these are only for two years (2008-09 and 2009-10) and would need to be restored in the third year (2010-11). Without quick legislative action, the district may be required to make the DM match in order to receive the DM state match funds. At this point, the current law is in existence which requires the full match to receive the state funds.

## **RESERVE FOR ECONOMIC UNCERTAINTIES**

In the Governor's proposal, the minimum required levels for the reserve for economic uncertainties would be reduced by half. This would be effective for two years and would have to be restored in 2010-11. We would caution school districts on taking advantage of this reduction. We believe that the current percentages established in the Criteria and Standards for reserves are the BARE minimum. In these times of great economic and budgetary uncertainty, school districts need reserves that are greater than the minimum. Of particular concern is the use of one time reserve dollars for ongoing expenditures, as this may only compound financial problems when districts must both support the expenditures from ongoing revenues and restore one-time funds utilized from reserves. If districts exercise this option, this office will require a specific resolution approved by the board acknowledging that the board plans to reduce the district's reserves and has developed a detailed plan that will allow the district to restore the reserve to Criteria and Standards levels by the 2010-11 fiscal year budget. Please refer to Bulletin No. 09-059 that specifically addresses the use of district reserves.

## **BUDGET REDUCTIONS**

School districts must be proactive and develop alternative expenditure reduction plans to meet the amount of flexibility options that have been incorporated in their 2008-09 Second Interim Report and their 2009-10 Budget. If school districts elect to utilize the flexibility proposals, they must provide the COE with an alternative set of assumptions detailing the additional expenditure reductions that would be implemented if categorical program flexibility does not materialize. We will require the district board's approved detailed alternative budget reduction plans for fiscal years 2008-09 and 2009-10. Board recognition of the total dollar amount for fiscal year 2010-11 may be sufficient. Again, each school district's situation is unique and we will need to make final decisions based on many factors.

## **NEGOTIATIONS**

It is unlikely that any statutory deadlines will be extended. Therefore, school districts must adhere to the current deadlines and provide the necessary statutory employment notices that provide them with the most flexibility to deal with the final results of the Governor/Legislative debates. Once those statutory dates have passed, the school district limits its options for expenditure reductions needed to meet the requirements of the final signed State budget. Programs and staff can always be re-instated once the final budget is enacted. For current and future years, school districts may want to consider delaying settlement of negotiations until after the 2009-10 budget is adopted and the level of flexibility options and funding availability are known. We recognize that each school district's situation is unique, but it is recommended that long term commitments not be made at this time. School districts may need to re-open contract language to implement some of the flexibility options. If considering a multi-year contract, school districts need to be very flexible and have appropriate contingency language, such as basing compensation increases on "funded COLA" or "effective COLA". Also recognize that there may be different COLAs and deficits for revenue limits versus categorical programs and this should be considered during negotiations. The Governor is proposing rescinding the .68% COLA for 2008-09. If a negotiated agreement called for increasing the salary schedule by a funded COLA, it is suggested that you delay implementation of any increase until the final funded COLA is determined. In the event that the salary schedule has already been increased, districts may want to review alternative plans with their legal counsel.

## CASH MANAGEMENT

Increased emphasis must be put on cash flow analysis and monitoring, and the impact of reduced or late apportionments for this year and possibly future years. We must be proactive, not reactive. AB 1781 (Budget Act) defers apportionment payments from February to April 2009, impacting cash flow. The current Governor's proposal would defer the April apportionment to July. School districts must be prepared and review cash options for borrowing. These could become permanent deferrals implemented to address the State's fiscal crisis. A separate bulletin will be distributed shortly which refers to options that the district has for borrowing cash, along with the Fiscal Alert issued by FCMAT that includes a chart of the proposed deferrals. In the section "RESERVE FOR ECONOMIC UNCERTAINTIES", the importance of appropriate reserves was discussed. The cash management challenges make it even more imperative that we consider reserve levels greater than the minimums required under the Criteria and Standards. The reserves may be especially critical now to meet cash flow needs that guarantee the district's ability to provide adequate cash to meet payrolls and other obligations.

## SUMMARY

These are very extraordinary economic times and it is difficult to gauge the future. It is important that school districts be proactive through developing contingency plans that allow the most possible flexibilities. We understand that there are many factors that are used to approve school district budgets and interim reports. The Business and Administration Steering Committee (BASC) is working closely with many organizations to provide fiscal advice to all COEs relative to their fiscal oversight responsibilities. All COEs have been encouraged to use these guidelines in the review of school districts' 2008-09 Second Interims and associated multi-year projections, as well as the development of the 2009-10 Budget. We feel that these guidelines represent the best advice for these extraordinary times and we will use them in the review of districts' reports. Greater detail as to the funding terms to be applied to various programs can be found in our Proposed Budget Newsletter, the BASics. This newsletter plus corresponding district specific schedules can be found on our website: [http://www.sbcss.k12.ca.us/busServe/bas\\_0910budget.php](http://www.sbcss.k12.ca.us/busServe/bas_0910budget.php).

Please feel free to share this information with stakeholders and other interested parties within your district.

Sincerely,

GARY S. THOMAS, Ed.D.  
County Superintendent of Schools

*Signed by*  
**Betty Richards, Interim Director**  
Fiscal Management and Advisory Services

*j:\bulletin\09-060 2008-09 Second Interim Financial Rpt Assumptions*