



February 24, 2009

Bulletin No. 09-068

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

SUBJECT: **2008-09 SECOND INTERIM ASSUMPTIONS - COMMON MESSAGE
FOR MID-YEAR REVISIONS AND STATE APPROVED BUDGET 2009-10**

After months of delays, on Friday February 20, 2009, Governor Schwarzenegger signed a 17-month budget that runs through June of 2010. The enacted budget is devastating to K-12 education reducing education spending by \$8.6 billion over the next 17 months. Although the details of the Budget have changed from the Governor's January budget proposal, the magnitude of the cuts to education have, unfortunately, not been reduced.

Additionally, the enacted budget is predicated on the passage of several ballot measures that will go to the voters on May 19, 2009. These measures include a new State spending cap, changes to existing tax measures, borrowing mechanisms, as well as changes to the State Lottery. There will also be a measure that acknowledges a \$9.3 billion "maintenance factor" (Proposition 1C) that is owed to schools and will be paid in the future. There is still considerable uncertainty about the national and state economy, as well as the growing unemployment rate. All of these factors could result in additional budget revisions for the 2009-10 budget year.

We recognize that review and approval of budgets and interim reports requires 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. While recognizing and acknowledging the unique individual circumstances that will influence each school district's development of their 2008-09 Second Interim Reports, including multiyear projections for 2009-10 and 2010-11, as well as development of the 2009-10 Adopted Budget, we strongly recommend that the following guidelines be used in developing the assumptions utilized.

FEDERAL STIMULUS PACKAGE

On Tuesday, February 17, 2009, President Obama signed into law the \$789 billion Federal Stimulus Package to boost the national economy. If received, these are *one time only* funds. Currently, there are many unknowns, including how much will actually reach schools, when the funding will be received, and a determination of appropriate uses. **Therefore, it is inappropriate to recognize any funding from the Federal Stimulus Package until you receive an official notification of an allocation.**

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, and a history of unfunded or partially funded COLAs in prior years. In recognition of these pressures on school funding, we strongly recommend that school districts use the School Services of California (SSC) Financial Projection Dartboard in development of the 2008-09 Second Interim Financial Report, the multi-year projections and the 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. Please see the attached updated SSC dartboard reflecting the enacted 17 month state budget. This dartboard information is expected to be updated again after the May 19 Special Election should any of the propositions not be approved by the voters.

The table below displays the deficit factors for both years and the components related to the elimination of the statutory COLAs and the revenue limit cuts.

| | <u>2008-09</u> | <u>2009-10</u> |
|-----------------------------------------|----------------|----------------|
| School District Revenue Limits | | |
| Statutory COLA | 5.66% | 5.02% |
| COLA Deficit Factor | 0.94643 | 0.90117 |
| Further Revenue Limit Cut | 0.97372 | 0.96437 |
| Total Deficit | 7.844% | 13.094% |
| Proration Factor for Form RLI/RL | .92156 | .86906 |

CATEGORICAL PROGRAM FLEXIBILITY

2007-08 Ending Fund Balance Flexibility

The enacted budget authorizes school districts to transfer 2007-08 state categorical ending fund balances that accrued as of June 30, 2008, for any educational purpose in either 2008-09 or 2009-10. Districts will be required to take a resolution to their governing board to utilize this flexibility and provide a report to California Department of Education (CDE) on the flexibility utilized by October 31, 2009. This is for restricted ending fund balances only, and not for any deferred revenue programs. We have also heard that this flexibility may exclude any carryover balances from prior year included in the 2007-08 restricted ending balances. Once we have more information in this area, we will notify the districts in a separate correspondence. The exceptions to this transfer authority include the following programs:

| | |
|------------------------------------------------------------------|-------------------------------------------------|
| California High School Exit Exam (CAHSEE) Intensive Intervention | Quality Education Investment Act (QEIA) |
| Economic Impact Aid (EIA) | Special Education |
| Instructional Materials Funding Realignment Program (IMFRG) | Targeted Instructional Improvement Grant (TIIG) |
| Home to School Transportation | |

The enacted budget reduces state categorical funding by approximately 15.4% in 2008-09 and 4.5% in 2009-10 (plus adjustments for growth/decline) for most programs with tiered flexibility. Categorical cuts and flexibility have been broken down into three tiers. The "Mega-Item" transfer authority has been repealed.

Tier I Programs

No reduction in funding for 2008-09 and 2009-10 (remains at 2007-08 level adjusted for growth/decline).

| | |
|-----------------------------------|----------------------------------|
| After School Education and Safety | Home to School Transportation |
| Child Development | K-3 Class Size Reduction |
| Child Nutrition | Quality Education Investment Act |
| Economic Impact Aid (EIA) | Special Education |
| AVID | |

Tier II Programs

Reduction of approximately 15.4% in 2008-09, plus additional reduction of 4.5% in 2009-10 (plus adjustment for growth/decline).

| | |
|--------------------------------------|-----------------------------------|
| Adults in Correctional Facilities | Foster Youth Educational Services |
| Apprenticeship Programs | K-12 High Speed Network |
| Agricultural Vocational Education | Partnership Academies |
| Charter School Facility Grants | Pupil Testing |
| County Office Oversight (FCMAT) | Year-Round Education |
| English Language Acquisition Program | |

Tier III Programs

Reduction of approximately 15.4% in 2008-09, plus additional reduction of 4.5% in 2009-10 (plus adjustment for growth/decline) with flexibility to transfer funds from any of these programs to any "educational purpose" (includes unrestricted General Fund or other categorical programs) for the period from 2008-09 to 2012-13. Districts utilizing this flexibility will be required to have board authorization for all transfers made. Districts may also be required to present a report to CDE outlining the flexibility transfers utilized and the educational purposes as the legislature is interested to know how districts are going to manage this flexibility option. Once more information is available, our office will notify the districts of the specific requirements and resolutions required.

| | |
|-------------------------------------------------------------------------------|-------------------------------------------------------------|
| AB 825 Targeted Instructional Improvement Block Grant | Class-Size Reduction-9th Grade |
| AB 825 Teacher Credentialing Block Grant | Deferred Maintenance |
| AB 825 Professional Development Block Grant | Educational Technology |
| AB 825 Pupil Retention Block Grant | Gifted and Talented Education (GATE) |
| AB 825 School Safety Consolidated | Indian Education Centers |
| AB 825 School and Library Improvement Administrator Training Program (AB 430) | High Priority Schools and II/USP (Eliminated in 2009-10) |
| Adult Education | Instructional Materials Fund |
| Alternative Credentialing | International Baccalaureate |
| Arts and Music Block Grant | National Board Certification |
| Bilingual Teacher Training | Peer Assistance and Review |
| California High School Exit Exam (CAHSEE) Intervention | Physical Education Teacher |
| California School Age Families Educational Program (CalSAFE) | Recruitment Grants |
| Student Leadership | Readers for the Blind |
| Center for Civic Education | Regional Occupational Centers/Programs |

| | |
|-----------------------------------------|----------------------------------|
| Certificated Staff Mentoring Program | SB 472 Professional Development |
| Charter Schools Categorical Block Grant | School Safety Competitive Grant |
| Child Oral Health Assessments | Specialized Secondary Programs |
| Community Based English Tutoring (CBET) | Supplemental Hourly Programs |
| Community Day Schools | Teacher Dismissal Apportionments |
| Counselors, Grades 7-12 | COE Williams Audits |

K-3 Class Size Reduction

The Budget trailer bill changes current law (Education Code Section [E.C.] 52124) by altering financial penalties for K-3 CSR participating classrooms that exceed the 20 to 1 student-to-teacher ratio. The change allows for an increase up to the state class size restrictions per grade level and retain K-3 CSR funding, but at a lower penalized level. A local educational agency is eligible to receive funding pursuant to the schedule below, only if the district was participating in the K-3 CSR program as of December 10, 2008.

| Revised CSR Graduated Penalties | |
|----------------------------------------|---------------------------|
| Class Size | 2008-09 to 2011-12 |
| Up to 20.44 | No penalty |
| 20.45 to 21.44 | 5% penalty |
| 21.45 to 22.44 | 10% penalty |
| 22.45 to 22.94 | 15% penalty |
| 22.95 to 24.94 | 20% penalty |
| 24.95 or more | 30% penalty |

The penalty has two parts to be applied. The first part is for classes that average over 20.44 students, the penalty is imposed, resulting in districts retaining from 95% down to 70% of the full incentive funding of \$1,071 for Option 1 and \$535 for Option 2. The second part of the penalty is that K-3 CSR incentive funding on a per-classroom basis **is limited to 20 students**. This means that, if a school has a classroom with 25 students, it would receive 70% of the funding for 20 of the students, not the full 25 students enrolled in that class. The following is an example that illustrates the full impact of the penalties.

Example (provided by SSC): A school with 100 students in third grade. To meet the 20:1 limit of K-3 CSR, there are five teachers—each with 20 students in their classroom. In order to make budget cuts, this school is considering raising class sizes to 25 or 33. How much funding will they receive taking into account the penalties?

| Scenario 1 | Scenario 2 | Scenario 3 |
|---------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 100 students with 5 teachers 20:1 Ratio | 100 students with 4 teachers 25:1 Ratio | 100 students with 3 teachers 33:1 |
| Cost 5 teachers x \$65,000 = \$325,000 | Cost 4 teachers x \$65,000 = \$260,000 | Cost 3 teachers x \$65,000 = \$195,000 |
| Incentive Revenue \$1,071/pupil x 100 pupils = \$107,100 | Incentive Revenue \$1,071/pupil x 70% = \$749.70/pupil \$749.70 x 80 pupils = \$59,976 | Incentive Revenue \$1,071 x 70% = \$749.70/pupil \$749.70 x 60 pupils = \$44,982 |
| Net Savings Compared to Scenario 1 | Reduced staffing cost (\$325,000 - \$260,000 = \$65,000) Offset by Less Incentive Funding (\$107,100 - \$59,976 = \$47,124) Net Savings = \$17,876 | Reduced staffing cost (\$325,000 - \$195,000 = \$130,000) Offset by Less Incentive Funding (\$107,100 - \$44,982 = \$62,118) Net Savings = \$67,882 |

As demonstrated in the example, the changes in the K-3 CSR penalties provide a positive savings. Under prior law, no incentive funding would have been received for exceeding 21.84 students in the classroom so the calculation of net savings must include reduced incentive funding resulting from the prorated funding per student and a limit of 20 students per classroom.

Another consideration is that the only part of the Education Code that is changed is thresholds and amounts of the penalties - all other aspects of CSR stay in place. This means that the priority for implementation must be followed. As E.C. 52124 states, the priorities for implementation are grade 1 followed by grade 2 and then grades 3 and/or kindergarten.

Prior to the current Budget situation and change in the laws related to implementation penalties, the California Department of Education (CDE) has stated that:

... if a district fails to follow the grade level implementation priorities, funding could be lost for one or more grade levels at a school. For example, if only one half of the first grade classes at a school were reduced-or the district kept an "overflow" class in first grade-and the district claimed CSR funding for the second, third, and kindergarten classes at that school, all funding could be lost except for the reduced first grade classes. (K-3 Frequently Asked Question #50)

According to representatives from the Legislature and Governor's Office their only intent was to change the threshold and levels of penalties and no other changes were intended or expected for K-3 CSR. As a result, at this time we advise that districts must be extremely cautious when planning to potentially increase K-3 class sizes. Not only do districts need to carefully consider the full impact of the funding penalties, but they should also be mindful of the implementation priorities in current law. Additional information regarding CDE's interpretation of the interface between the incentive penalties and priorities for implementation, and hopefully, a legislative fix that takes care of this apparent oversight will be provided to districts as soon as the information becomes available.

Instructional Materials

The Instructional Materials requirement to provide textbooks according to the current adoption schedule is suspended for 2008-09 and 2009-10. Therefore, districts will not be required to purchase instructional textbooks and supplemental materials under the adoption schedule for 2008-09 and 2009-10. However, the requirement to still have standards aligned textbooks is still in place, they just do not have to be the most current adoption. There may be additional requirements that will be provided once more information is known, such as whether or not you still need to follow these adoptions schedules if you utilize the flexibility options of other state categoricals to provide updated standards aligned textbooks and/or materials.

Deferred Maintenance

Although districts in the deferred maintenance program will receive the State's share of deferred maintenance in the 2008-09 and 2012-13 fiscal years, the enacted budget eliminates the requirement to contribute one half of 1% of general fund expenditures for these two years. The requirement to provide a report to the SPI and Legislature for not making the district match is suspended. The district-match will be reinstated in 2013-14.

Routine Repair and Maintenance (RRMA)

In 2008-09 and 2009-10, school districts may reduce their required contributions to the routine restricted maintenance account from 3% to 1%. Because a large majority of the expenditures are tied to staffing and necessary ongoing maintenance, districts may have difficulties reducing routine restricted maintenance expenditures from 3% to 1%. The RRMA contribution reverts back to 3% in 2013-14.

State Lottery

The State Controller's Office apportioned \$30.52 (unrestricted) per ADA for the first quarter of 2008-09. This is \$5.92 per ADA less than the first quarter of 2007-08. Based on current Lottery sales and a projected 10% decrease in sales, the 2008-09 Lottery apportionment is projected at \$109.50 per ADA for unrestricted and \$11.50 per ADA for the Proposition 20 Instructional Materials funding.

As adopted, a balanced state budget is predicated upon voter approval of the \$5 billion Lottery securitization on the May 19th special election. If securitization of the Lottery is passed by the voters, the years of 2009-10 through 2013-14 will no longer be based on Lottery sales and the State's General Fund will backfill Proposition 98 for the loss of Lottery funding.

RESERVE FOR ECONOMIC UNCERTAINTIES

The enacted budget maintains the minimum reserve requirement levels for economic uncertainties. We believe that the current percentages established in the state 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 these minimum levels.

NEGOTIATIONS

Current law requires districts to issue layoff notices by March 1st for administrators and March 15th for certificated personnel. Current law provides for a second layoff window extending to August 15th if certain conditions are met. However, we advise districts to adhere to the March 1st and March 15th deadlines and provide the necessary statutory employment notices that provide the most flexibility to deal with the enacted budget and any potential future changes as a result of the Governor's May Revision or future legislation. Once those statutory dates have passed the school district limits its options for expenditure reductions needed to meet the requirement of any revision to the enacted budget. Programs and staff can always be re-instated when a determination is made that they can be funded.

When considering a multi-year contract, school districts need to be very flexible and have appropriate contingency language, such as basing compensation increases on "funded COLA" or "effective COLA". Also recognize that there may be different COLAS and deficit for revenue limits versus categorical programs and this should be considered during negotiations.

The proposal to reduce the instructional year from 180 to 175 days was not included in the enacted budget. Existing instructional minutes and days remain in force.

CASH MANAGEMENT

The enacted budget defers \$2 billion in revenue limit apportionment, as well as \$570 million in K-3 CSR payments from February to July 2009. In addition, \$1 billion in revenue limit apportionments will be deferred from July to October and \$1.5 billion from August to October. Districts should plan that the June P2 apportionment that was normally received in early July, might be apportioned later in July. A great deal of emphasis must be placed on cash flow analysis and monitoring in regards to the impact of reduced or deferred apportionments for the current and subsequent fiscal years. This makes it even more imperative that districts maintain reserves greater than the State minimum required levels. The reserves may be especially critical now to meet cash flow needs that guarantee your ability to provide adequate cash to meet payrolls and other obligations.

Our office will be meeting with the County Auditor-Controller and County Treasurer to determine their ability to continue to provide districts with the temporary loan of property taxes in the form of Constitutional Advances in the 2009-10 fiscal year. Once our office has this information, we will provide it to the districts. Districts may want to also look into the potential of Tax Revenue Anticipation Notes (TRANS) for short term borrowing needs. Our office is providing a workshop on Wednesday, February 25th which will address the processes for obtaining short term borrowing.

SUMMARY

These are 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 flexibility possible. We understand that there are many factors that are used to approve school district budgets and interim reports. Our office is working closely with many organizations, including BASC, SSC, SIA and CASBO to provide fiscal advice to school districts and to voice a common message with other county offices. We recommend and strongly encourage all school districts to utilize these guidelines as you finalize the 2008-09 Second Interim Financial Report, including multiyear financial projections for 2009-10 and 2010-11, as well as the development of your 2009-10 Adopted Budget. As additional clarifying information is gathered by our office over the coming weeks, after a more thorough analysis of the budget trailer bills are performed, we will provide additional information to the school districts. However, we wanted to get as much information as could be garnered in this short time frame out to districts as timely as possible to provide you the additional fiscal information that might enable your district to provide the most updated Second Interim Assumptions to your governing board and public as possible. We know that some additional information may materialize that may change some of these assumptions, so districts need to continue to plan for the unexpected and have contingency budget plans available and approved by your governing boards.

Greater detail as to the estimated funding rates to be applied to various state programs can be found in our 2008-09 Mid-year Revisions and 2009-10 Adopted 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.

Please feel free to share this information with stakeholders and other interested parties within your district. If you have any questions, please call me at the number listed below or contact any of the business services advisors.

Sincerely,

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

Signed by
Teri Kelly, Director

Fiscal Management and Advisory Services
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