



Monterey County Office of Education

Leadership, Support, and Service to Prepare All Students for Success

Dr. Nancy Kotowski
County Superintendent of Schools

July 20, 2011

To: Superintendents and Chief Business Officials

From: Garry P. Bousum, Associate Superintendent,
Finance and Business Services

A handwritten signature in black ink, appearing to read "G. Bousum".

Subject: Background and Advice on the 2011-12 Enacted State Budget

On June 30, 2011, Governor Brown signed the 2011-12 State Budget Act and Education Trailer Bill AB 114. The budget contains a number of highly unusual provisions, including statutory direction as to the amount of State revenues each district is to budget and certain limitations on how the County Superintendent of Schools applies fiscal oversight measures. This memorandum provides both general and technical advice in the implementation of the State Budget's effect on each district.

Background

The State Budget Act and AB 114 include the following major provisions, affecting K-12 education:

- Added \$4 billion more in General Fund Revenues over the \$6.6 billion in the May Revision, bringing the total to \$10.6 billion more in General Fund revenues over the two-year period (2010-11 and 2011-12).
- Redesignated 1.06 cents of the sales tax from state revenue to local revenue to fund the Governor's realignment of services. Shifted funding for child development programs (except preschool programs) out of Proposition 98 which reduced the minimum guarantee by \$1.054 billion.
- Enacted "Trigger Language" that automatically implements reductions to K-12 education if state revenue forecasts are not met. Provides a formula for calculating the reductions implemented by the "Trigger Language".
 - If state revenues fall short of targeted projections by more than \$2 billion, the state will impose a \$248 million cut to home-to-school transportation including special education transportation and will reduce revenue limits by up to 4%, proportional to the amount of state revenue shortfall.

- Per a School Services of California article published July 8, 2011, the “trigger language” would be implemented as follows:
 - If revenues for the year are estimated to be less than \$1 billion below the forecast, then no changes are required.
 - If revenues fall between \$1 billion and \$2 billion lower, then a series of additional cuts are triggered, including a \$23 million across-the-board cut to child care and a \$30 million reduction to community colleges, accompanied by a \$10 increase to student enrollment fees (this is on top of the \$10 increase included in the first Budget bill).
 - If revenues fall more than \$2 billion, then the state will impose additional cuts to public education of up to \$1.9 billion: a 4% reduction to revenue limits; a \$248 million cut to school transportation; and a \$73 million reduction to community colleges.
 - In addition, the revenue limit reductions would be proportional to the amount of the revenue shortfall—for example, if the shortfall is \$3 billion, then the revenue limit reduction would be 2% rather than the 4% that would apply if revenues fall \$4 billion or more below estimates.
- If the reductions authorized by the “Trigger Language” are implemented, then AB 114 provides the authority for local school boards to negotiate the reduction of the school year by 7 days to a minimum of 168 instructional days.
- Eliminated the August 15th layoff window for 2011-12, which would have allowed for further adjustments to certificated staffing.
- Reinstated the \$2.1 billion in new deferrals that were proposed in the Governor’s January Budget Proposal, bringing the total of deferrals to \$9.44 billion for K-12.
- Added Education Code Section 42127(a)(1)(A) which includes a requirement that “each school district shall project the same level of revenue per unit of average daily attendance as it received in the 2010-11 fiscal year and shall maintain staffing and program levels commensurate with that level”.
- Added Education Code Section 42127(a)(1)(B) which states, “for the 2011-12 fiscal year, the school district shall not be required to demonstrate that it is able to meet its financial obligations for the two subsequent fiscal years”.
- Added Education Code Section 42127(d) which was amended to state, “the county superintendent, as condition on approval of a school district budget, shall not require a school district to project a lower level of revenue per unit of average daily attendance than it received in the 2010-11 fiscal year nor require the school district to demonstrate that it is able to meet its financial obligations for the two subsequent fiscal years”.

The Governor did lessen the potential impact of AB 114 by clarifying his intent when he signed the bill. He underscored that the responsibility and authority to maintain school district fiscal solvency remains with school superintendents and their local boards by stating that “in fashioning their local budgets, school boards may nevertheless need to make reductions due to cost increases, loss of federal funds, enrollment declines, or other factors. AB 114 does not interfere with these local

school board decisions. School boards should take all reasonable steps to balance their budgets and to maintain positive cash balances.” (Attachment A)

Monterey County Office of Education Guidance

The Monterey County Office of Education will continue our statutory fiscal oversight responsibilities, while complying with the provisions of AB 114. This includes the following guidance:

- MCOE will continue to expect districts to maintain “best fiscal practices”. Moreover, we advise school districts to continue with prudent fiscal management as provided through the continuing AB 1200 statutes.
- MCOE will comply with AB 114, which impacts Education Code 42127, the annual budget process. MCOE will not disapprove any school district budget as long as the budget demonstrates the ability to meet its financial obligations for the 2011-12 year.
- MCOE will develop our budget approval/disapproval letter to school districts that details the requirements of AB 114 and includes information and comments about the school district’s budget that would have been required had AB 114 not been enacted.
- MCOE will continue our AB 1200 oversight responsibilities as currently specified in State law.
- Education Code 42127(i)(4) reads, “not later than 45 days after the Governor signs the annual Budget Act, the school district shall make available for public review any revisions in revenues and expenditures that it has made to its budget to reflect the funding made available by that Budget Act”. In implementing this section, districts may have adopted the 2011-12 budget in one of these three likely scenarios:
 - If the school district included flat funding in the revenue section of its adopted budget, it is likely that no further action is required. A 45-day budget revision may be unnecessary, unless the district made other budget changes.
 - If the school district did not include flat funding in the revenue section of its adopted budget, then a 45-day budget revision will be required in accordance with this education code section.
 - If the school district makes any revisions to expenditures as a result of AB 114, a 45-day budget revision will be required in accordance with this education code section.
- MCOE recommends that school districts begin negotiations immediately in order to develop contingency language in the event that the “trigger language” necessitates reducing the instructional year.

Revenue Limit and COLAs

AB 114 added Education Code Section 42127(a)(1)(A) which includes a requirement that “each school district shall project the same level of revenue per unit of average daily attendance as it received in the 2010-11 fiscal year.” Therefore, school districts should use their 2010-11 revenue limit per ADA funding for the projection of their revenue limit per ADA for 2011-12. School districts should use the School Services of

California (SSC) Dashboard, which was updated based on the 2011-12 Enacted State Budget in the development of their 2011-12 Budget Revisions and the related MYPs for 2012-13 and 2013-14.

AB 3632 Mental Health Services

The Budget agreement included the Governor’s May Revision proposal to permanently shift the responsibility to provide AB 3632 mental health services and out-of-home care residential services from county agencies to SELPAs and permanently repealed the AB 3632 mandate. The provisions take effect in the 2011-12 fiscal year. Funding is provided from state and federal resources for this purpose and the funding will be distributed to SELPAs via a formula similar to the current AB 602 formula, which is based on total student count rather than services provided. Proposition 98 is increased by \$221.8 million as a result of this shift of responsibility to school districts to provide AB 3632 mental health services and out-of-care residential services. Additionally, AB 114 includes \$98.6 million in one-time Proposition 63 (Mental Health Services Act) funding to pay for mental health agreements between school districts and local county health mental agencies for 2011-12. The formula for the distribution of the \$98.6 million will be determined. School districts should work with the SELPA to determine the fiscal impact of this proposal and to develop implementation strategies.

Child Care

The Budget restores approximately \$200 million to child development programs that was previously eliminated in March, and does this through: (1) a restoration of the 10% reduction to the standard reimbursement rate; (2) a reduction in contracts or slots (including preschool) by 11% instead of 15%; and (3) continued funding of childcare services for 11- and 12-year olds. The Budget does not include the March proposal to increase family fees paid by low income individuals for childcare services.

CASH MANAGEMENT

Intra-Year Principal Apportionment Deferrals

SB 82 was chaptered on March 24, 2011, and allows for intra-year deferrals in the 2011-12 fiscal year. The intra-year deferrals from SB 82 are as follows:

Timeframe	Deferral Amount
July 2011 to September 2011	\$700 million
July 2011 to January 2012	\$700 million
August 2011 to January 2012	\$1.4 billion
October 2011 to January 2012	\$2.4 billion
March 2012 to April 2012	\$1.4 billion

Inter-Year Principal Apportionment Deferrals

SB 70 was chaptered in March 2011 and made a one-time modification to the February 2011 to July 2011 deferral. The \$2 billion February to July deferral was split into three amounts: \$24.7 million from February 2011 to July 2011, \$1.4 billion from February 2011 to August 2011, and \$569.8 million from February 2011 to September 2011. The 2011 Budget Act reinstates the \$2.1 billion deferral from the Governor’s January Proposal, which we now know to be \$1.3 billion from March 2012 to August 2012 and \$763.794 million from April 2012 to August 2012. Please refer to the table below for a list of principal apportionment inter-year deferrals. It is important to note that \$7.4 billion will be deferred from 2010-11 to 2011-12 and \$9.4 billion will be deferred from 2011-12 to 2012-13. The percentage of principal apportionment funds deferred across fiscal years in 2011-12 is 39%. **See Attachment B for a graphic illustration of all principal apportionment deferrals both intra-year and inter-year.**

2010-11		2011-12	
Deferral Amount	Timeframe	Deferral Amount	Timeframe
\$24.7 million	February 2011 to July 2011	\$2.0 billion	February 2012 to July 2012
\$1.4055 billion	February 2011 to August 2011	\$1.3 billion	March 2012 to August 2012
\$569.8 million	February 2011 to September 2011	\$763.8 million	April 2012 to August 2012
\$419 million	April 2011 to July 2011	\$419 million	April 2012 to July 2012
\$678.6 million	April 2011 to August 2011	\$678.6 million	April 2012 to August 2012
\$800 million	May 2011 to July 2011	\$800 million	May 2012 to July 2012
\$1.0 billion	May 2011 to August 2011	\$1.0 billion	May 2012 to August 2012
\$2.5 billion	June 2011 to July 2011	\$2.5 billion	June 2012 to July 2012
\$7.4 billion	Deferred across fiscal years	\$9.4 billion	Deferred across fiscal years

Also note that changes in property valuations can significantly affect cash flow. Also, the change in status from a Revenue Limit school district to a Basic Aid school district will impact the receipt of cash from monthly to primarily December and April.

Other Inter-Year Payment Deferrals

In addition to the inter-year principal apportionment payment deferrals, there are three inter-year deferrals applicable to K-3 Class Size Reduction, School Safety Violence Prevention, and Targeted Instructional Improvement Grant. These programmatic deferrals are in effect for 2010-11, 2011-12, and 2012-13. The deferral amounts are listed below:

- \$550 million for K-3 Class Size Reduction (CSR)
- \$38.7 million for School Safety Violence Prevention

- \$100.1 million for the Targeted Instructional Improvement Grant

Apportionment Schedules

In addition to apportionment deferrals, the State of California modified the principal apportionment payment schedules in 2009-10 to enhance the State's cash position in future years. In light of the reduced and deferred apportionments and change in timing of distribution of funds from the State, a great deal of emphasis must be placed on cash flow analysis and monitoring. **MCOE is prepared to work with school districts on cash borrowing options.**

Please note that the principal apportionment deferrals will impact each school district differently depending upon: (1) the amount of State Aid revenue limit funding that each district receives and (2) the principal apportionment schedule that is dictated by Education Code Section 14041. There are three separate principal apportionment schedules outlined in Education Code Section 14041(a). Most LEAs in California receive apportionments that are in accordance with Education Code Section 14041(a)(1)(2)(3)(4). However, there are a small number of districts in California that receive apportionments in accordance with Education Code Section 14041(a)(7) or Education Code Section 14041(a)(8). The Education Code Section 14041(a)(7) principal apportionment schedule applies to school districts that reported less than 5,000 units of average daily attendance in the 1979-80 fiscal year and that received 39 percent or more, but less than 75 percent, of their total revenue limits from local property taxes in that fiscal year. The Education Code Section 14041(a)(8) principal apportionment schedule applies to school districts which reported less than 5,000 units of average daily attendance in the 1979-80 fiscal year and which received 75 percent or more of their total revenue limits from local property taxes in that fiscal year. If your district does not meet the criteria for 14041(a)(7) or 14041(a)(8), then you receive principal apportionments according to the 14041(a)(1)(2)(3)(4) schedule. **Please see Attachments C-1, C-2, and C-3 for the three separate principal apportionment schedules that include monthly percentages for 2010-11 and 2011-12.**

MCOE stresses the importance of maintaining appropriate reserves. **These cash management challenges make it even more imperative that each school district consider reserve levels greater than the minimums required within the State's Criteria and Standards.** Reserves are especially critical in order to meet cash flow needs that guarantee the ability to adequately meet payrolls and other obligations.

RESERVE FOR ECONOMIC UNCERTAINTIES

The revised 2009-10 Enacted Budget lowered the minimum reserve requirement levels for economic uncertainties to 1/3 the percentage level adopted by the State Board as of May 1, 2009. SB 70 extends this provision for both 2010-11 and 2011-12. However, school districts are required to make progress in the 2012-13 fiscal year to return to compliance with the specified standards and criteria adopted by the State Board. By fiscal year 2013-14, school districts must meet compliance and restore the reserves to

the percentage adopted by the State Board as of May 1, 2009. MCOE believes that the percentages established in the Criteria and Standards for reserves prior to the current Enacted Budget are the BARE MINIMUM. Moreover, once the minimum reserve levels are reduced, it would take budget reductions of twice the amount of the lowered reserve levels to fully restore the reserve by June 30, 2014. With the continued deferral of apportionments, it is more critical than ever to maintain higher levels of reserves for cash flow purposes. Remember that a school district needs a state loan when it runs out of cash and do not have any other borrowing options even if the school district has a positive fund balance.

Basic Aid school districts are advised to maintain reserves much greater than the State required minimum because Basic Aid district do not have the prior year ADA protection provided to other districts under Education Code 42238.5, whereby revenue limit funding is based on ADA for either the current or prior fiscal year, whichever is greater.

NEGOTIATIONS

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 deficits for revenue limits versus categorical programs and this should be considered during negotiations.

It is also important to note that the 2011-12 Enacted State Budget provides flat funding, but AB 114 incorporated "trigger language" reducing revenue limit apportionments if state revenues do not reach a specified level. School districts need to consider this as they negotiate changes to collective bargaining agreements.

SUMMARY

We recognize that these are extraordinary economic times and it is difficult to gauge the future. School district budgets should be managed with a great degree of conservatism over the next few years. In these times of great economic and budgetary uncertainty, school districts need reserves that are much greater than the minimum.

It is recommended that school districts continue to be conservative and focus on a multi-year strategy when recommending decisions and obtaining agreements. Attention should be focused on the multi-year projections for 2012-13 and beyond even though county offices cannot use the multi-year projections to disapprove a budget for 2011-12.

MCOE recommends that each school district monitor cash flow projections, review State Board of Education Adopted Criteria and Standards, and keep in mind the FCMAT Predictors of Schools Needing Intervention (Attachment D). These are very useful tools as districts review the budget and interim reports.

We understand how difficult it is for school districts to deal with the increased pressures, significantly reduced funding, apportionment deferrals, and the uncertainty associated with a volatile economy. It is important that school districts be proactive through developing contingency plans that allow the most flexibility possible.

If you have any questions about the contents of this document, you may contact Garry Bousum at gbousum@monterey.k12.ca.us , (831) 755-0307 or Candi Clark at cclark@monterey.k12.ca.us ,(831) 755-0308.

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Attachments

cc: Dr. Nancy Kotowski, County Superintendent of Schools