CCSESA BASC DISTRICT FISCAL OVERSIGHT COMMON MESSAGE TALKING POINTS
2009/10 BUDGET AND RELATED MYPS
FINAL: APRIL 17, 2009

BACKGROUND

In May 2008, BASC (CCSESA's County Office CBO subcommittee) initiated the practice of developing common talking points for county offices to use as we prepare to advise districts on assumptions for budget and interim reports. Our goal is to have as consistent a county office message as possible to school districts on major points affecting the interim and budget reports. This Common Message provides guidance for the 2009/10 budget development process.

This update reflects the Enacted Budget for 2009/10 as well as current information relative to the interpretation of the flexibility provisions enacted per SBX3 4, Chapter 12, Statutes of 2009. After months of delays, on Friday, February 20, 2009, Governor Schwarzenegger signed a 17 month budget SB 1, Chapter 1, Statutes of 2009 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. To address the $41.6 billion budget deficit, State lawmakers reduced expenditures by $14.9 billion, added $12.5 billion in new taxes to the General Fund, borrowed $5.4 billion and offset the difference with $7.9 billion of funds from the Federal Stimulus Package.

Additionally, the Enacted Budget is predicated on the passage of several ballot measures that will go to voters on May 19, 2009. If these Propositions do not pass, the cost to the State could be as much as $6 billion.

- Proposition 1A: Budget Stabilization that establishes a rainy day fund beginning in 2011-12, and establishes a spending cap on the budget. If Proposition 1A fails, the sales and use tax increase will only be effective through 2010/11.
- Proposition 1B: K-14 Education would receive $9.3 billion in payments in lieu of the maintenance factor for 2007-08 and 2008-09. In addition, up to $200 million in revenue limit equalization funding may be made for 2011-12. This Proposition, if approved, would not take effect unless Proposition 1A is also approved by voters.
- Proposition 1C: This measure is the Lottery Modernization Act. It would securitize the State Lottery, bringing the State more than $5 billion. This would eliminate lottery funding for school districts beginning in 2009-10. If the Lottery Securitization Proposition is approved, Proposition 98 funding would be increased by an appropriate amount to make up for the lost lottery funding.
- Proposition 1D: Allows the State to divert the use of Proposition 10 Child Development monies.
- Proposition 1E: Allows the State to divert the use of Proposition 63 Mental Health monies.
- Proposition 1F: State officer salary increases.

Note that the Enacted Budget allows the Governor's May Revision to be delayed up to June 8 or six calendar days after the next statewide election, whichever is later.

There is still considerable uncertainty about the National and State economy and the future economic outlook continues to decline. Since the budget was signed on February 20th, the economic indicators have deteriorated. California's unemployment rate reached 11.2% in March compared to 8.7% in

December, and the National unemployment rate increased to 8.5% for March 2009. Economists at UCLA project the economy and labor market will continue to deteriorate through 2009, with the California unemployment rate reaching a peak of almost 12% by the middle of 2010. The State tax collections are currently $737 million short of projections for 2008/09. The Legislative Analyst Office (LAO) is currently forecasting a $7.837 billion short fall in the revenues used to project the 2009/10 Budget as well as a delay in the State's economic recovery. Additionally for K-14 education, the LAO anticipates a drop of approximately $3.6 billion in the Proposition 98 minimum funding guarantee. This equates to about $600 per ADA.

The economic downturn coupled with the State's reliance on the passage of the propositions on the May 19 ballot and the June 8 Revision (May Revise) is likely to result in additional budget revisions for 2009/10 and future budget years. In addition, trailer or clean up legislation is anticipated to clarify language contained in the Enacted Budget. It is anticipated that it could take from three to six months before this process is completed. Until then, there are proposed agreements between various State agencies as to interpretations of the Enacted Budget. However as a note of caution, until the trailer or clean up legislation is signed by the Governor, it is always possible that these agreements could change.

This update recommends that school districts use the Enacted Budget information, but anticipate additional reductions and/or new or revised legislative recommendations.

As County Office Chief Business Officials, we recognize that review and approval of budget and interim reports requires analysis that involves many factors, including the State Board of Education adopted Criteria and Standards and the FCMAT Predictors of School Agencies Needing Intervention. While recognizing and acknowledging the unique individual school district circumstances that will influence budget and financial review, we strongly recommend that the following guidelines be used by all county offices when advising school districts as they develop their 2009/10 Budgets including multi-year projections for 2010/11 and 2011/12. Through this "Common Message" we will collectively provide an enhanced level of support by utilizing this consistent approach to fiscal oversight.

AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA)

On Tuesday, February 17, 2009, President Obama signed into law the $789 billion Federal Stimulus Package, the American Recovery and Reinvestment Act (ARRA), to boost the National economy. Comprehensive federal guidance for each of the programs can be found at http://www.ed.gov/policy/gen/leg/recovery/index.html#apps. The Governor has established a website for California that contains information including funding estimates for California and additional regulations and clarifications. The website is www.recovery.ca.gov.

On March 10, 2009, the LAO released its analysis and estimates that California will receive more than $31 billion in federal dollars that can be used to address State Budget shortfalls and to supplement existing State spending.

The LAO cautioned that the Legislature will need to take many actions in the coming months, and urged it to:

- Maximize the benefit of the federal funds to the State's General Fund Budget
- Recognize the one-time, short-term nature of the federal funds
  - The LAO suggested that the Legislature could address that risk by, for example, using monies to retire the State's large mandate obligation or for a data system
  - The dollars could be spread out over three years rather than a single year to reduce expectations

- Act quickly in a handful of cases
  - For example, there is a need to rescind one eligibility change made to Medi-Cal in order to qualify for federal funding
- Use the next few months to oversee implementation of the federal spending
  - Most issues can be deliberated in the regular policy and budget committees

There are three major components of the ARRA that will be addressed in this update. The components are Title I funds, IDEA funds, and the State Fiscal Stabilization funds. It should be noted that these are one-time funds and should not be used for ongoing expenditures. The funding estimates previously provided by the United States Department of Education (USDE) for ARRA programs during January/February 2009 were overstated because they did not include payments to County Offices of Education and Charter Schools. The State will post the allocations on their website www.recovery.ca.gov. Please refer to this website for the latest information for California both for funding, compliance and reporting requirements.

Currently, there are many unknowns including the actual allocation to school districts, when the funding will be received, and a determination of allowable uses. Therefore, funding from the ARRA should not be budgeted until you receive an official notification of an allocation.

Title I

To date, California has received $564 million, which is equal to 50% of the ARRA allocation for Title I. CDE anticipates posting school district allocations by May and the apportionment details will follow. It is anticipated that the remaining 50% will be distributed from USDE to CDE sometime between July 1 and October 1 of 2009 pending federal cash management requirements. This is contingent on the USDE approvals.

The funding for Title I will continue to follow the current Title I allocation formulas and "supplement not supplant" requirements must be followed.

In addition, the required set asides of 5% for Highly Qualified Teacher training and 20% for choice and supplemental services for schools in Program Improvement (PI) are in effect. The ability to file for a waiver for the 15% carryover requirement is available. This option is available to LEAs every three years. More specifics on additional waivers will be forthcoming from the USDE.

Please note that Title I funds provided by the ARRA may be required to be accounted separately from the non-ARRA Title I funds. LEAs may be required to demonstrate how the funds were used to help improve pupil performance. More specifics on uses of these funds and reporting requirements will be forthcoming from the USDE.

IDEA

California has received $634 million, or about 50% of the total allocation for IDEA funding. These funds will be distributed to each SELPA based on a grant award. CDE anticipates posting the grant awards to SELPAs in May and the apportionment details will follow. In order to receive the remaining funds, each state will need to submit, for review and approval by the USDE, additional information that addresses how the state will meet the accountability and reporting requirements in section 1512 of the ARRA. The second half of the awards will be made from USDE to CDE by September 30, 2009 upon approval of the state's recordkeeping and reporting submission.

Note that IDEA, Part B, funding allows for 50% of the increased ARRA funds be used to reduce state and local expenditures, which is used in determining the maintenance-of-effort (MOE) requirements. However, grantees must receive a determination under IDEA Section 616(f) of "Meets Requirements" to be eligible to reduce their MOE under IDEA Section 613(a) (2) (C). The 50% offset **"freed-up" local or state and local funds** must be used for activities allowed under the Elementary and Secondary Education Act (ESEA), which includes programs under No Child Left Behind. School districts should contact their SELPA for allocations, uses of funds, and MOE requirements.

State Fiscal Stabilization Funds

California will receive approximately $4.9 billion in State Fiscal Stabilization Funds (SFSF) under ARRA for K-12 and higher education. No SFSF funds have been received yet by the State.

The Governor submitted California's application around April 9, 2009 for approximately $2.565 billion in eligible funding for K-12 and higher education. This represents the first allocation of the funds for which California is eligible. The Governor's office intends to apply to the USDE for the remaining balance of funds in June/July. It is currently estimated that California is eligible for another $1.1 billion for K-12 and higher education, but this amount could change. We understand that allocations of the revenue to LEAs will be based on the formula used for the midyear cuts which is about one-half for revenue limit restoration and one-half for categorical program restoration.

We still don't have information relative to when allocations will be posted, the methodology for the allocations, any restrictions on uses of the fund or the reporting requirements.

REVENUE LIMIT, SPECIAL EDUCATION AND CATEGORICAL PROGRAM COLAs

These are extraordinary economic times for school finance given the State budget structural deficit, the weak economy, the instability of financial markets, and the increase in unemployment. In recognition of these pressures on school funding, we recommend that school districts use the School Services of California (SSC) Financial Projection Dartboard in development of their 2009/10 Budget and associated multi-year projections for both the revenue limits and categorical programs.

The SSC dartboard will footnote and address any differences in recommended COLAs for special education or categorical funds. SSC expects to update the dartboard again after the June 8 Revision (May Revise).

An additional note of caution, school districts should carefully review their revenue limit projections. Due to the deficits and changes in both property taxes and state aid, it is possible that a school district might temporarily shift in or out of basic aid status.

CATEGORICAL PROGRAM FLEXIBILITY

The State Budget has provided considerable flexibility relative to the use of categorical programs funded in Tier III. This flexibility also provides opportunities to school districts to align local educational priorities with funding available. These flexibility provisions are in effect for five years, 2008/09 through 2012/13.

There are still unanswered questions about the flexibility provisions, so please note that additional changes will be forthcoming. Again, please note that it could be from three to six months before the Governor signs the trailer or clean up legislation containing answers to these questions. Following are more specifics about the flexibility provisions and deficits.

2007/08 Ending Fund Balance Flexibility

The Enacted Budget authorizes school districts and COEs to transfer 2007/08 General Fund and State/Local Cafeteria Fund categorical ending balances that accrued as of June 30, 2008 for any educational purpose in either 2008/09 or 2009/10. The exceptions to this transfer authority include the following programs:

- Adult Education
- California High School Exit Exam Intensive Intervention Grants
- Deferred Maintenance
- Economic Impact Aid (EIA)
- Home to School Transportation (including Special Education and School Bus Replacement)
- Instructional Materials
- Quality Education Investment Act (QEIA)
- Special Education
- Targeted Instructional Improvement Grant (TIIG)
- Any funding sources for capital outlay, bond funds or federal funds.
- Any funding protected by legal settlements or voter approved initiatives.

Note that deferred revenues as of June 30, 2008 can be included in the calculation of the 2007/08 Ending Funding Balance flexibility. There are still some clarifications and guidance that will be forthcoming from CDE relative to the 2007/08 Ending Fund Balance Flexibility.

Tiers

The Enacted Budget reduces most categorical funding by 15.4% for 2008/09 and an additional 4.5% for 2009/10 for most programs with tiered flexibility. Categorical programs have been divided into three tiers. The following lists are from the Revised March 4, 2009 Categorical programs prepared by CDE. Please note that this list may be updated.

Tier I - These programs will not be cut and no programmatic flexibility is granted (however, there is a significant relaxation of K-3 Class-Size Reduction (CSR) penalties). Following are Tier I programs with their SACS Resource Codes:

Program	SACS Resource Codes	Program	SACS Resource Codes
• After School Education and Safety (ASES)	6010	• Federal Resources	3000-5999
• Career Technical Education	6385,7810	• Healthy Start	6240
• Child Care and Development	6040-6080 6130-6150	• Lottery Instructional Materials – Proposition 20	6300
• Child Nutrition: Child Care Food Program	5320	• Pupil Transportation: Home to School and Special Education	7230-7240
• Child Nutrition: School Breakfast Start Up	5380	• Quality Education Investment Act (QEIA)	7400
• Child Nutrition – Summer Food Service Program	5310	• School Bus Replacement	7235
• Class Size Reduction, Grades K-3	1300	• Special Education	6500-6540
• Economic Impact Aid (EIA)	7090	• Staff Development: Intersegmental - Advancement via Individual	7340
• Economic Impact Aid (LEP)	7091	• Lottery (State)	1100
• Emergency Repair Program, Williams	6225		

Tier II - These programs will be cut 15.4% in 2008/09 and an additional 4.50% in 2009/10, but no programmatic flexibility is granted for these programs; current requirements remain in place. Following are Tier II Programs with their SACS Resource Codes.

Program	SACS Resource Codes	Program	SACS Resource Codes
• Adult Education Apprentice Programs	6390	• Foster Youth Educational Services	7365,7366 7367
• Adults in Correctional Facilities	6015	• Multi-Track Year Round School Grant Program	0000
• Agricultural Vocational Incentive Grants	7010	• Partnership Academies Program	7220
• California K-12 High Speed Network	7126	• ROC/P Apprentice Programs	6350
• Charter School Facility Grant Program	6030	• Student Assessment	0000-7810
• English Language Acquisition Program, Teacher Training and Student Assistance	6286		

Tier III – SBX3 4 (Education Code (EC) Section 42605) authorizes complete flexibility in the use of funds appropriated in 39 budget act items. These budget act items equate to more than 39 SACS Resource Code Programs. For fiscal years 2008-09 through 2012-13, school districts may use funds from these 39 budget act items for any educational purpose. The funds are therefore unrestricted. Program or funding requirements, as otherwise provided in statute, regulation, and budget act provisional language associated with the funding, are not in effect.

An LEA may choose to use funds from one or more of the 39 items in a manner completely different from how the funds could be used in years prior to 2008-09. Conversely, an LEA may choose to use the funds to continue to operate a program in the same manner as in the past. Both of these scenarios reflect a local decision as allowed by the flexibility provisions. Any restrictions imposed on the funds from these 39 items are therefore local restrictions. There are no state restrictions or requirements, such as expenditure reports or compliance reviews, associated with the funding.

These categorical programs will be cut 15.4% in 2008/09 and an additional 4.50% in 2009/10.

School districts must present information on the proposed use of the funds and must allow comment on the proposal at a public hearing. The school district's Board of Education must approve the use of funds.

As of this date, there is uncertainty about the public hearing requirements. Until further guidance from CDE, if a school district intends for the flexibility options to be included in its adopted budget, we suggest the proposed uses of funds be presented at a public hearing, allow for public comment, and then be approved by the Governing Board prior to the public hearing for the budget adoption. These actions can all take place at the same Board Meeting if done in the sequence noted in the previous sentence. The State Controller's Office (SCO) is issuing new regulations regarding the public hearing and other issues relative to the compliance requirements of the Tiers/Programs in the Enacted Budget.

There is still uncertainty about the public hearing and reporting requirements to CDE and the Legislature. We have given the CDE the following "Sample Board Item" prepared by Orange COE and have asked that CDE and SCO agree that this language will meet the requirements that will be included in the Audit Guide for the public hearing.

Sample Board Item

Your School District Information

Background Information:

The Enacted 2009/10 California State Budget and SBX3 4, Chapter 12, Statutes of 2009 authorizes school districts to use funding received from the State for Tier Three programs, for any educational purpose, to the extent permitted by federal law. The flexibility to use funds from these programs is authorized for five years from 2008/09 through 2012/13 by Education Code 42605.

Rationale:

The Enacted 2009/10 California State Budget reduces funding to education by $8.6 billion. Education Code 42605 provides school districts the flexibility to use funds from Tier Three programs to other educational programs as deemed necessary.

The Board is being asked to approve the following uses of funds to meet educational needs:

(List applicable funds)

Program Name	*SACS Resource Code*	*Amount of Use*	*Programs/Purposes for Which Funds are to be Used*

The Common Message will be updated when we receive confirmation from the CDE and the SCO relative to this "Sample Board Item" and the Audit Guide requirements.

Additionally, until final reporting requirements are known, school districts may want to track uses of funds by SACS Resource codes and by Goal and Function Codes within Resource Codes.

School districts are cautioned about the flexibility requirements. The Legislature and other State Agencies are continuing to define and interpret the law. Some of these will require further legislation. For example, although SBX3 4 states that the base year for the Tier III flexibility programs is 2008/09, a current proposal is to make 2007/08 the base year for some ADA generated or hourly programs. We don't have the final list of programs that will use 2007/08 as the base year, but will update the Common Message when the list is finalized.

School districts may not have final information for some time and therefore, must have an alternative plan if the final requirements don't allow the amount of flexibility anticipated.

Following are the Tier III programs with their SACS Resource Codes.

Program	SACS Resource Codes	Program	SACS Resource Codes
• Adult Education (Fund 11)	6390	• International Baccalaureate (IB) Program: Staff Development & Startup	7286
• American Indian Early Childhood Education	7210	• National Board Certification Teacher Incentive Grant	6267
• Arts and Music Block Grants	6760	• Physical Education Teacher Incentive Grants	6258
• CA Assessment Program: Advanced Placement (AP) Exams – Fee Assistance	0000	• Professional Development Block Grant	7393
• CAHSEE Intensive Instruction and Services	7055	• Professional Development: California Peer Assistance & Review Program for Teachers	7271
• Cal-SAFE Academic and Supportive Services	6091	• Professional Development/ Staff Development: Bilingual Teacher Training (BTTP)	7275
• Cal-SAFE Child Care and Development Services	6092	• Professional Development/ Staff Development: Readers for the Blind	7295
• Cal-SAFE County Classroom (Formerly Pregnant Minor)	6093	• Pupil Retention Block Grant	7390
• Center for Civic Education	7810	• ROC/P	6350
• Certificated Staff Mentoring Program	7276	• School and Library Improvement Block Grant	7395
• Charter School Categorical Block Grant	0000	• School Community Violence Prevention Grant	7391
• Child Oral Health Assessments	0000	• School Safety and Violence Prevention, Grades 8-12	6405

• Class Size Reduction, Grade 9	1200	• Staff Development: Administrator Training (AB 75) (formerly Principal Training)	7325
• COE Oversight Williams	7385	• Staff Development: Mathematics and Reading SB 472 (formerly AB 466)	7294
• Community Based English Tutoring (CBET)	6285	• Staff Development: Teachers of English Language Learners (ELL), SB 472	7296
• Community Day Schools	2430	• Student Organization Vocational Education	7360
• Deferred Maintenance (Fund 14)	6205	• Summer School/ Supplemental Instruction Programs	0000
• Education Technology: CTAP, SETS and Supplemental Grants	7110	• Supplementary Programs: Specialized Secondary	7370
• Gifted and Talented Education (GATE)	7140	• Supplemental School Counseling Program	7080
• High Priority School Grants Program	7258	• Targeted Instructional Improvement Block Grant	7394
• High Priority Schools: SAIT and Corrective Action	7268	• Teacher Credentialing Block Grant	7392
• Instructional Materials	7156	• Teacher Dismissal Apportionments	0000

K-3 Class Size Reduction

SBX3 4 didn't change the total state support for the Kindergarten and Grades One through Three (K-3 CSR) Program in 2008-09, but closed the program in 2009-10 through 2011-12 to participants that had not applied for 2008-09 funds. In addition, SBX3 4 established a new schedule of reduced funding percentages in *EC* 52124.3 for classes exceeding 20.44 pupils. This new schedule replaces, for the four-year period from 2008-09 through 2011-12, the schedule of reduced funding percentages established previously in *EC* Section 52124. The new reduced funding schedule provides for funding reductions as follows:

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 and over	30% penalty

Funding for classes in excess of 20.44 pupils will be calculated based on a count of 20 pupils multiplied by the funding rate, less the funding reduction penalty percentage above.

A school district is eligible to receive funding pursuant to the above schedule for the number of grade level classes participating in the K-3 CSR program as of December 10, 2008. Although not yet signed as part of the budget trailer or clean up legislation, the current proposed amendment is that eligibility will be based on the total number of classes operated by the school district and the date will change from December 10, 2008 to January 31, 2009. This means that the school district would be able to use any legal combination of K-3 grade levels or school sites as long as the total number of district wide classes did not exceed the number operated as of January 31, 2009. However, the current CSR rules relative to grade level implementation must be followed when increasing class sizes, i.e.: Grade 1, Grade 2 and then either Grade 3 or Kindergarten. All other rules under K-3 CSR remain as currently stated per ed codes.

All Quality Education Investment Act (QEIA) grant recipients must continue to meet the 20:1 requirement for K-3 CSR to meet the full implementation requirement. It is anticipated that, by the end of April, CDE will issue guidance, claim forms, and instructions.

Supplemental/Hourly Programs

Three of the hourly programs continue to be under-funded and the following deficits are projected in 2008-09 and 2009-10. In addition, Supplemental Hourly Programs are subject to a 15.4% mid-year reduction in 2008-09 and a 4.5% reduction in 2009-10.

Hourly Program	Estimated Deficits with all Reductions Applied	2009/10 Hourly Rate
K-12 Core Academic	(30%)	$2.85
Grade 2-9 Retained or Recommended for Retention	(48%)	$2.10
Grade 2-6 At Risk	(45%)	$2.24
Grade 7-12 CAHSEE Intervention	(20%)	$3.27

A note of caution. Supplemental/Hourly Programs are one of the Tier III programs that may use 2007/08 as the base year rather than 2008/09. We recommend that school districts maintain conservative budgeting and use the total CDE 2007/08 P-A Certifications for these programs and reduce that amount by 19.84% for their Tier III projections. Below is the table for the rates if 2007/08 were selected as the base year:

Hourly Program	2007/08 Deficit Col. 1	2007/08 Actual Funded Rate Col. 2 ($4.08 x Col. 1 deficit)	2009/10 Estimated Rates Col. 3 (Col. 2 x 19.84% (15.4% + 4.5%))
K-12 Core Academic	10.054%	$3.67	$2.94
Grade 2-9 Retained or Recommended for Retention	28.597%	$2.91	$2.34
Grade 2-6 At Risk	25.162%	$3.05	$2.45
Grade 7-12 CAHSEE Intervention	0.000%	$4.08	$3.27

Special Education

Special Education funding continues to be under-funded statewide and the Enacted Budget does not include COLA for special education, nor, however, does it contain reductions. In addition, the Enacted Budget does not include the proposed $65 million for the Behavioral Intervention Plan (BIP) mandated cost settlement. This is about $10.92 per ADA that will flow to the SELPA. It is our understanding that the Legislature may consider funding for BIP during their spring subcommittee meetings, however, school districts should not include funding for BIP at this time.

Instructional Materials
The Instructional Materials requirement is suspended for 2008/09 as well as 2009/10. Therefore districts will not be required to purchase materials under the adoption schedule for 2008/09 and 2009/10. However, unless the law is changed, school districts must budget for two adoptions in their 2009/10 and/or 2010/11 budgets. Both the Math and ELL adoptions are required to be implemented during the 2010/11 fiscal year. Based on conversations with the CDE, we are hopeful that there will be a resolution of this issue. Another outstanding issue is the question of whether a school district must purchase textbooks if the adoption has already been approved by their Board.

Although, Instructional Materials funding falls into Tier III categorical flexibility, transfers of carry-over Ending Fund Balance as of June 30, 2008 is prohibited.

Williams Lawsuit Settlement
County Superintendents are still required to continue to visit school sites at least once a year to determine sufficiency of instructional materials pursuant to Education Code 1240. For the purposes of Section 1240, for the 2008-09 and 2009-10 fiscal years, sufficient textbooks or instructional materials include standards-aligned textbooks or instructional materials, or both, that were adopted prior to July 1, 2008, by the State board or local educational agency pursuant to statute, unless those local educational agencies purchased or arranged to purchase textbooks or instructional materials adopted by the State board after that date. It is the intent of the Legislature that each local educational agency provide each pupil with the same State-adopted, standards-aligned textbook or instructional material as is provided to every other pupil enrolled in the same grade and same course offered by the local educational agency.

Medi-Cal Administrative Activities (MAA)
On Tuesday, February 17, 2009 President Obama signed into law The American Recovery and Reinvestment Act, which included a provision to extend the moratorium to eliminate federal funding of the MAA program. Medicaid reimbursement is now available through June 30, 2009 for school based administration and transportation services.

Mandates
There is no change to existing K-12 mandates. We recommend that districts continue to file claims for past mandated costs until the Legislature suspends or repeals specific mandates.

Deferred Maintenance
Under the Enacted Budget a school district is relieved of 5 total years of match requirement, on a current or prior year basis, and also receives 5 total years of flexibility. For the total five year period, all program requirements will be deemed to have been met.

(Note: We are currently clarifying final instructions and waiting for final guidance from CDE and OPSC.)

The intent of this note is to provide clarification about flexibility in the Deferred Maintenance Program (DMP), as provided by Section 15 of SBX3 4 and the LEA match requirements. The program Budget Act dollars have historically been viewed as funding the program one year in arrears, which has raised some implementation questions.

Regarding flexibility to use the deferred maintenance funds for any educational purpose, such flexibility begins with the 2008-09 dollars appropriated in the 2008-09 Budget Act which is the State's match for the school district's 2007-08 DMP and allocated by OPSC in this current fiscal year (2008-09). This flexibility continues for five years until 2012-13 which is the State's match for the school district's 2011-12 DMP.

Regarding relief from the match requirement, if an LEA transferred in 2007-08 its local match for the school district's 2007-08 DMP and this transfer was to be matched by the State through the 2008-09 Budget Act deferred maintenance funds, the LEA may now either reverse or undo their match, thus moving to a current basis wherein the LEA would not be required to make a match in fiscal year 2008-09, and no match up to and including fiscal year 2012-13. The school district would begin making its local match during 2013-14 which would be the local match for the 2012-13 DMP. The State would also provide its match during 2013-14 for the school district's 2012-13 DMP.

If the LEA transferred in 2007-08 its local match for the school district's 2007-08 DMP and this money has already been expended for deferred maintenance purposes in accordance with the LEA's five year deferred maintenance plan and thus the LEA is unable to undo the match, then the LEA will consider the funds transferred in 2007-08 as "unmatched funds". The district can then apply these "unmatched funds" against the local match that would be required to be made in 2013-14 for the school district's 2012-13 DMP. The State would also provide its match during 2013-14 for the school district's 2012-13 DMP. **This situation is currently under discussion due to conflicting regulations and we don't know the final outcome. This situation would only apply if a school district had expended their entire deferred maintenance fund as of June 30, 2008.**

If, on the other hand, an LEA budgeted it local match in their 2008-09 fiscal year budget for the school district's 2007-08 DMP and this was to be matched by the State through the 2008-09 Budget Act deferred maintenance funds, the LEA is relieved of making that match currently budgeted in their 2008-09 budget.

A simple way to view this is that an LEA is relieved of 5 total years of match requirement, on a current or prior year basis, and also receives 5 total years of flexibility. For the total five year period, all program requirements will be deemed to have been met.

Routine Restricted Maintenance

From 2008/09 through 2012/13, school districts may reduce their required contributions to the routine restricted maintenance account from 3% to 1%. Because a large majority of the expenditures is tied to staffing and necessary ongoing maintenance, districts may have difficulties reducing routine restricted maintenance expenditures from 3% to 1%.

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 annual ADA for unrestricted and $11.50 annual ADA for the Proposition 20 Instructional Materials.

The Governor's proposal includes securitization of the Lottery for 2009/10. Based on this proposal, 2009-10 Lottery funding will utilize 2008-09 per-ADA rates as the base, plus a zero COLA. The estimates for 2009-10 are $109.50 per annual ADA unrestricted and $11.50 per annual ADA for Proposition 20 Instructional Materials.

Charter School General Purpose Block Grants

The Enacted Budget projects the Charter School Block Grant rates as listed below. Please note that the rates typically fluctuate throughout the year since they are based on the K-12 statewide average for revenue limit funding. The Categorical Block Grant rate is expected to be reduced from $500 to $404 in 2009-10 across all grade levels.

Grade Level	Projected 2009-10 Adjusted Rates
K-3	$5,400
4-6	$5,483
7-8	$5,644
9-12	$6,545

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 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.

NEGOTIATIONS

Current law requires school districts to issue final layoff notices by May 15th for certificated personnel. E.C. 44955.5 provides governing boards the authority to issue layoff notices between five days after the enactment of the Budget Act and August 15th in any year that the enacted State budget contains less than a 2% COLA. However, we advise districts to adhere to the May 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 June 8 Revision (May Revise) or future legislation. Once those statutory dates have passed, the school district limits its options for expenditure reductions needed to meet the requirements of any revision to the Enacted Budget. Most of the uncertainties of the current financial and legislative issues will not be known until after May 15. The August 15th layoff process has not been previously used and therefore has not been tested. Because of our concerns we recommend that school districts use this date only for additional notices not given on March 15. Programs and staff can 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 deficits for revenue limits versus categorical programs and this should be considered during negotiations.

CASH MANAGEMENT

The Enacted Budget defers $2 billion in revenue limit apportionment as well as $570 million K-3 CSR payments from February to July 2009. In addition, $1 billion in revenue limit apportionments will be deferred from July to October 2009 and $1.5 billion from August to October 2009.

For cash flow purposes, school districts should plan that the June 2009 P2 apportionment that was normally received in early July 2009 may be apportioned at the end of July 2009. Although CDE indicates that they still intend to certify the June 2009 P-2 apportionment in early July 2009, the law allows the State Controller until the end of July 2009 to distribute the actual cash. Therefore, 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 years. This makes it even more imperative that districts maintain reserves greater than the State minimum required level.

K-12 Deferral Amount	Timeframe
$2.57 Billion • $2 Billion Revenue Limit • $570 Million K-3 CSR Funding	February to July 2009
$1.6 Billion	June to July 2009
$1.0 Billion	July to October 2009
$1.5 Billion	August to October 2009

County Offices should be prepared to work with their school districts on cash borrowing options and meet with their County Treasurer regarding assistance that can be provided by the Treasurer's Office.

In the section "RESERVE FOR ECONOMIC UNCERTAINTIES", we stressed the importance of maintaining appropriate reserves. These cash management challenges make it even more imperative that we 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.

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 conservation over the next few years. The 17 month Enacted Budget contains a number of provisions that require voter approval on May 19th and is subject to potential future changes as a result of the Governor's June 8 Revision (May Revise) or future legislation.

Due to considerable uncertainties and a bleak economic outlook described in this Common Message, we believe there is a strong indication that there will be further mid-year reductions in 2009/10. We do not believe that school districts will receive both the ARRA funds and the Enacted Budget allocations. We strongly encourage school districts to develop contingency plans that can be immediately implemented if 2009/10 mid-year reductions are enacted. It is important that school districts be proactive through developing contingency plans that allow the most flexibility possible.

Furthermore, school districts are strongly encouraged to not wait for the May 19 Special Election, the June 8 Revision (May Revise), or potential revenues from the ARRA (Federal Stimulus Package). School districts are advised to begin planning now for necessary reductions for 2009/10 and 2010/11. At the time while planning necessary budget reductions for 2009/10 and 2010/11, school districts can also develop program or expenditure restoration priorities if more revenues are made available.

We understand that there are many factors that are used to approve school district budgets and interim reports. BASC is working closely with many organizations to provide fiscal advice to all county offices relative to their fiscal oversight responsibilities and to voice a common message. We recommend and strongly encourage that all county offices use these guidelines in the review of the school districts' 2009/10 Budget and associated MYPs.