Santa Clara County Office of Education
Charles Weis, Ph.D.
County Superintendent of Schools

Informational Bulletin

For Santa Clara County Districts

District Business & Advisory Services

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Bulletin: 12-011

Date: July 15, 2011

To: District Chief Business Officials
District Directors of Fiscal Services
Charter Schools

From: Nimrat Johal

Re: 2011-12 Final State Budget and 45-Day Revision Guidelines

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With the final 2011-12 State Budget and Education Trailer Bill, Assembly Bill (AB) 114, school districts now have the funding parameters and conditions to revise (if needed) their adopted 2011-12 budgets. This bulletin provides highlights from the the relevant provisions of the Budget and the Trailer Bill.

Education Code (EC) section 42127 requires the Governing Board of each school district to make any revisions in its adopted budget revenues and expenditures within 45 days after the Governor signs the annual Budget Act. The following represents the general assumptions and parameters that we are recommending districts use in the preparation of their 45-Day Budget Revision. This guidance is based on the State Budget Act for fiscal year 2011-12.

In addressing the intent of the 45-Day Revision, a district will likely have one of three scenarios:

- District already included “flat funding”, i.e. did not reduce revenues by $349 per average daily attendance for its adopted budget; therefore, no further action is required.

- District did not include flat funding in the revenue section of its adopted budget; therefore, a budget revision is likely to be required in accordance with this education code section.

- District plans to make revisions to expenditures as a result of AB 114; therefore a 45-Day budget revision is most likely required to be in accord with education code section.

In the following, we summarize those parts of the State Budget that districts, joint powers authorities and charter schools should consider .

Background

On June 30, 2011, Governor Brown signed the State Budget Act, SB 87, Chapter 33, Statutes of 2011, and the Education Trailer Bill, AB 114, Chapter 43, Statutes of 2011. These bills include the following significant 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 in January of 2012, and provides that districts may reduce the 2011-12 school year by 7 additional days.

- Eliminated the August 15th layoff window for 2011-12, which would have allowed for further adjustments/reductions to certificated staffing.

- Reinstated the $2.1 billion in additional apportionment/cash deferrals. These were originally part of the Governor's January Budget Proposal These bring 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.
    - require the school district to demonstrate that it is able to meet its financial obligations for the two subsequent fiscal years".

The Governor seemed to lessen the potential impact of AB 114 in his letter by clarifying that the responsibility and authority to maintain school district fiscal solvency remains with local school boards. The Governor's underlying message is that AB 114 does not interfere with local school board budget balancing decisions. Specifically, that school boards should take all reasonable steps to balance their budgets and to maintain positive cash balances.

AB 114

AB114 contains a number of highly unusual provisions including statutory direction as to the amount of state revenues that school districts are to budget. This revenue statement is based on a projected continuation in the growth in State revenues. Among other unique budget-related adjustments to Education Code, AB114 places certain limitations on how county superintendents of schools apply budget approval and fiscal oversight measures.

The following highlights some of the key features of AB114 and the Governor's signing message as well as our perspective:

- **Districts' Financial Planning**

    - The bill directs that "each 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." This statement focuses on revenue and to a slightly lesser degree on expenditures. How this will get translated is not altogether clear at this point. ***We suggest that each district will need to address its own specific fiscal situation.***

    - The Governor's signing message added some interpretative perspective: "If . . . revenues fall far short of projections – something we don't anticipate – this bill reduces funding beginning in February. It provides schools with the authority to shorten the school year by up to 7 days." This is in addition to the 5 days that were already authorized. ***From our perspective and the advice we will be giving, we recommend that districts should consider beginning negotiating for this as a contingency now.***

    - The bill uses language that school districts are to project "flat revenue funding . . . and to maintain staffing and program levels commensurate with that level." However, for individual school districts, many factors will change from last fiscal year to this one including declining enrollments, cost increases that occur on the natural, $2.1 billion of new (from the May revise) cash deferrals implemented with the budget, and other local likely expenditure increases. It does not mean that each and every position and program operated in 2010-11 must be restored but that reductions based on anticipated lower revenue of $330 per ADA that was used by most districts at budget adoption need to be reversed.

    - The Governor went on to say, "AB114 does not interfere with (districts fashioning their budgets via) local school board decisions . . . to take all reasonable steps to balance their budgets and maintain positive cash balances." ***This reaffirms, in our opinion, the expectation that districts are to do whatever seems prudent to remain solvent.***

Again, our perspective and general advice is that each district will need to address its own specific fiscal situation.

- **County Office Budget Approvals**

    - The bill limits the county superintendent's authority for district budget approval to only 2011-12 and suspends the portion of law as part of the budget approval process that requires districts to ensure that they can meet financial obligations for the two subsequent fiscal years. ***We will continue to recommend long-term planning anyway. Per our normal budget approval process via Business Services budget***

approval letters, we will provide individualized recommendations tailored for each district's fiscal stability. Reminder: by statute, school districts will have 45 days after the State budget has been signed to revise their budgets accordingly and submit those revised budgets to my office for analysis and evaluation.

We will follow the letter of the law while not surrendering our fiscal oversight responsibilities. We continue to do all we can to encourage districts to think more than one year out.

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. We recommend that school districts use the School Services of California (SSC) Dartboard, 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 permanently shifts the responsibility to provide AB 3632 mental health services and out-of-home care residential services from county agencies to SELPAs thereby permanently repealing 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. 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 has nto yet been determined.

Districts should carefully examine individual expenses related to the shifting of mental health services from the county to the school districts. The funding distribution anticipated in the Budget Act does not capture the cost of specific services that each district will be expected to absorb. We recommend that districts work carefully with their SELPA to reconcile expenses related to each identified student.

Child Care

The Budget restores approximately $200 million to child development programs that was previously eliminated in March, and does this through: a restoration of the 10% reduction to the standard reimbursement rate; a reduction in contracts or slots (including preschool) by 11% instead of 15%; and continued funding of childcare services for 11- and 12-year olds.

Cash Management

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. Please refer to the table below for a list of principal apportionment inter-year deferrals. It is important to note that $9.4 billion will be deferred from 2011-12 to 2012-13.

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**

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

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. We have always 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.

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. We believe that the percentages established in the Criteria and Standards for reserves prior to the current Enacted Budget are the ***bare minimum***.

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.

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 regarding this Bulletin, please feel free to call me at 408-453-6599.

Approved by: Kenneth Shelton, Chief Business Officer, Santa Clara County Office of Education