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

DATE: October 19, 2011

TO: District, Joint Powers Authorities (JPA) and Charter School
Chief Business Officials
Fiscal Services Directors

FROM: Nimrat Johal
Director, District Business and Advisory Services

VIA: Kenneth Shelton
Chief Business Officer

SUBJECT: **2011-12 First Interim Report Guidelines**

Background
Pursuant to Education Code section 35035 (g), 42130 and 42131, the Governing Board of each school district is to certify twice a year, that the district has the ability to meet its financial obligations for the remainder of that fiscal year and for the subsequent two fiscal years. The First (1st) Interim Report includes budget-to-actual expenditures of the current fiscal year through October 31, an estimate of budget for the remainder of the current fiscal year, and budget projections for the two subsequent fiscal years.

The following presents the general assumptions and parameters that the Santa Clara County Office of Education (SCCOE) is recommending that districts use in the preparation of their First Interim Report for Fiscal Year (FY) 2011-12.

Guidelines
For FY 2011-12, Assembly Bill (AB) 114 included a requirement that "each school district shall project the same level of revenue limit per unit of average daily attendance (ADA) as it received in the 2010-11 fiscal year". It also mandated that no multi-year projection for the two subsequent years could be used by the county superintendent/county office of education to disapprove a district. However, this requirement applied only to the 2011-12 Budget and not to subsequent Interim Reports.

For preparation of the 1st Interim Report, SCCOE is recommending that districts and other K-12 public school education entities use the School Services of California (SSC) Dartboard in the development of their 2011-12 1st Interim report and the related Multi Year Projections (MYPs) for 2012-13 and 2013-14. We agree with SSC's Dartboard for cost of living adjustments (COLA) projections and other state revenues which include items listed as follows.

2011-12 1st Interim Projections
2.24% COLA, deficit factor of 19.754%
$250-$300 per ADA one time Revenue Limit reduction
Unrestricted lottery revenue of $111.75 per Average Daily Attendance (ADA) and restricted lottery revenue of $17.00 per ADA

2012-13 Budget
3.1% COLA, deficit factor of 19.754%
Unrestricted lottery revenue of $111.75 per ADA and restricted lottery revenue of $17.00 per ADA

2013-14 Budget
2.8% COLA, deficit factor of 19.754%
Unrestricted lottery revenue of $111.75 per ADA and restricted lottery revenue of $17.00 per ADA

Cash Projections and Cash Flow
Senate Bill (SB) 70 that was chaptered in March 2011 includes additional apportionment deferrals in the amount of $2.0 billion. These payments are deferred from February 2012 to July through August 2012. When combined with the ongoing Principal Apportionment deferrals from previous years, a total of 39% or $9.4 billion is deferred from 2011-12 to 2012-13. Attachment A provides a graphic illustration of all Principal Apportionment deferrals both inter-year and intra-year.

In light of reduced and deferred apportionments we recommend extra care and attention be placed on projecting and managing district cash. While cash-flow analyses and monitoring are always important, the dynamics of this State budget proposal will place additional pressures on many school districts ability to meet their on-going financial obligations. The 1st Interim Report cash flow projections need to reflect this analysis as well as the new apportionment schedule. To fully assess the impact of these deferrals on district solvency, we are requesting school districts to submit cash-flow data using the templates provided by the Santa Clara County Office of Education (SCCOE). Copies have been sent to each school district in Santa Clara County via e-mail.

Basic Aid School Districts
Basic Aid school districts should carefully review their revenue limit projections. We are particularly concerned that it is possible that general economic factors affecting local property taxes could cause a school district to shift (even temporarily) out of basic aid status.

The State Budget includes a “fair share” reduction of 8.92% to be implemented in fiscal year 2011-12 and 2012-13. The cut is applied to categorical revenue that the district may otherwise be entitled to. Additionally, basic aid school districts should also be prepared to take their share of any “trigger language” reductions and should develop contingency plans accordingly.

Payroll Rates
PERS – 7% Employee and 10.92% Employer for 2011-12. PERS Reduction is 2.1%.

STRS – 8.25% Employee and 8.25% Employer for 2011-12
This rate has been the same for many years. We do not anticipate any changes for now.

Social Security - 6.2% Employee for 2011

Medicare - 1.45% for Employee and Employer for 2011
This rate has been the same for many years (1986)

Multi-Year Projections
As the markets continue to have difficulties and, State budget revenues continue to lag, the probability of the 2011-12 State Budget "Trigger Cuts" being pulled looms. Further compounding this issue, are statutory fixes necessitated if some of the provisions of AB 114 are pursued. For example, the current language to shorten the school year would also reduce STRS service time if a district were to successfully negotiate additional furlough days.

For these reasons, there is growing concern that the trigger cuts could be implemented mid-year. The alternative to trigger cuts means there might be additional cuts to the non-Proposition 98 side of the Budget, or perhaps even additional deferrals to schools' 2011-12 revenue (per a SSC article).

Please include with your 1st Interim report, a clear statement of assumptions including the ADA that is being used to calculate revenue limit income. If reductions are reflected in MYP, we request that the district provide details of the reductions including the number of Full Time Equivalents (FTE) being reduced, if applicable.

Reserve for Economic Uncertainty
The State Budget for 2011-12 extends the allowance to reduce the minimum reserve for economic uncertainty (REU) for an additional two years until June 30, 2014. However, current statue requires school districts taking advantage of this temporary allowance to "make progress" during fiscal year 2012-13 towards restoration and full compliance with the appropriate REU percent established in the Criteria and Standards. Under normal circumstances, we strongly encourage districts to adopt a perspective that the REU percent established in the Criteria and Standards is the BARE MINIMUM. With today's uncertainty, we caution and advise even greater prudence. Moreover, districts using this flexibility need to anticipate the budget dynamics of restoration once the minimum reserve levels are reduced. Restoration will typically require expenditure reductions of twice the amount of the lowered reserve levels to fully restore the reserve by June 30, 2014.

We encourage districts to exercise all expenditure reduction options available to them.

With the continued deferral of apportionments, it is more critical than ever to strive to maintain higher levels of reserves for cash-flow purposes. We remind districts that a state loan is only caused when a district exhausts cash and does not have any other borrowing options. A positive fund balance is irrelevant.

Again, we advise school districts to maintain compliance with the reserve requirements identified in the Criteria and Standards even under the current revenue/budget reduction environment.

Charter Schools

Education Code Section 47604.33 requires charter schools to submit their 1st Interim Reports to their charter authorizer, also by **December 15, 2011**. Chartering districts are then required to forward the reports to the County Office of Education by the same deadline. We recommend that districts coordinate with charter schools authorized under their jurisdiction to ensure timely submission of these reports.

Reminder: Charter schools are not required to use a particular format for Interim Reports but the existing report forms in the SACS software are available for their use. Charter schools may also choose, and are encouraged to develop multi-year projections. A certification page is not required.

Summary

AB 114 enacted "trigger language" that automatically implements reductions to K-12 education if state revenue forecasts of $88.5 billion are not met. Following is a graphic illustration of the trigger cuts implementation plan:

(This cut would be prorated based on the level of reduced revenue projections.)

- Additional $72 million reduction to community colleges
- $248 million cut to K-12 transportation
- Up to $1.5 billion cut to K-12 revenue limits

- $30 million reduction to community colleges
- $23 million cut to child care
- $548 million reduction to University of California, California State University, and other state programs

- No Cuts

February 1, 2012
Trigger II
January 1, 2012
Trigger I
No Trigger
$87.5 Billion
$86.5 Billion
$84.5 Billion
$88.5 Billion

There are many factors, both economic and others, which will affect the final outcome of the potential implementation of the "trigger language." Unfortunately, any changes to current law, should the trigger be pulled, will not be known prior to the school districts' submittal of 1st

Interim Reports for FY 2011-12.

Based on the uncertainty of the implementation of the trigger language, we recommend school districts:

- Maintain “best fiscal practices” and exercise prudent fiscal management
- “Plan” for the worst-case scenario and “hope for the best”. Financial projections should consider the possibility of trigger cuts and include contingency plans for the possible implementation of these cuts.
- Commence/continue negotiations in order to develop contingency plans in the event mid year cuts necessitate reducing the school year.
- Hold off on restoring any expenditure cuts until after a decision on mid-year cuts has been made.

We recognize that these are extraordinary economic times that require a great degree of conservatism in the management of school district budgets. These tough economic times make it more important for school districts to maintain reserves that are much larger than the required minimum. We appreciate the challenge that school districts face in dealing with the increased pressures, significantly reduced funding, apportionment deferrals and the volatility of an uncertain economy. We therefore urge districts to be proactive in developing contingency plans that allow for the greatest flexibility possible.

Timeline

We remind districts that First Interim Reports are due to the County Office no later than December 15th, 2011. Reports may be submitted earlier than this due date and we appreciate early submissions.

If you have any questions regarding this advisory, please feel free to call your District Advisors: Ann Redd-Oyedelle at (408) 453 6593, Jason Vann at (408) 453 6576, Jenina Salcedo at (408) 453 6594 or Kolvira Chheng at (408) 453 6510.

$1.4055B

Delayed Principal Apportionment Funding

2011-12 Budget Act

End of Fiscal Year

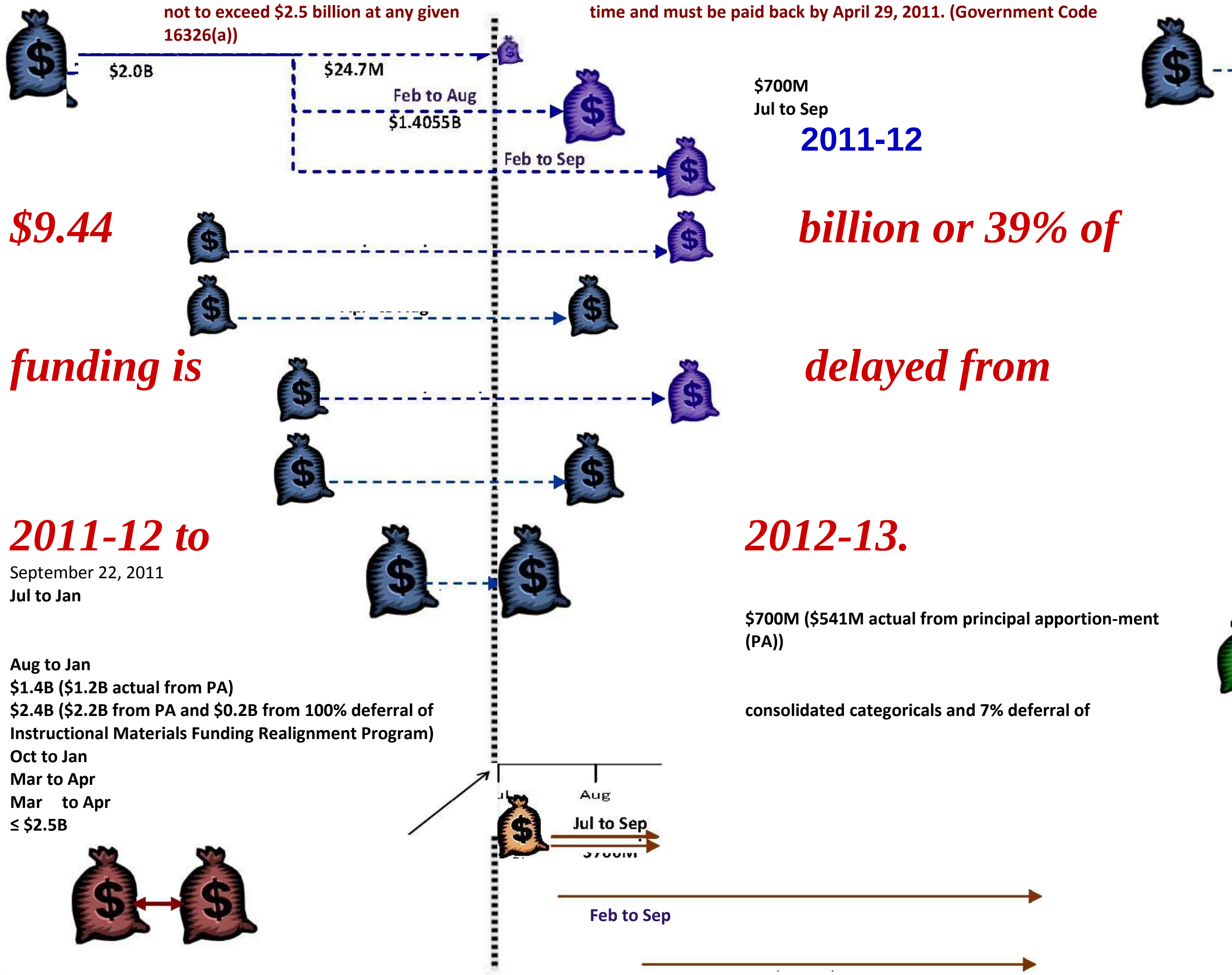
End of Fiscal Year

2010-11

2012-13

Blue - ongoing (Education Code 14041.5, 14041.6)

Red - one-time, pursuant to ABX8 14 (May be moved from prior month or delayed to the subsequent month). Total 2010-11 K-12 intra-year defer-rals not to exceed $2.5 billion at any given time and must be paid back by April 29, 2011. (Government Code 16326(a))



$9.44 billion or 39% of funding is delayed from 2011-12 to 2012-13.

September 22, 2011

Jul to Jan

$700M ($541M actual from principal apportion-ment (PA))

Aug to Jan

$1.4B ($1.2B actual from PA)

$2.4B ($2.2B from PA and $0.2B from 100% deferral of Instructional Materials Funding Realignment Program)

consolidated categoricals and 7% deferral of

Oct to Jan

Mar to Apr

Mar to Apr

≤ $2.5B

$569.8M

$2.5B

Jun to Jul

$679M

Apr to Aug

deferrals can not be moved (Government Code 16326(a)(2)).

Note: This chart only shows principal apportionment funding deferrals and DOES NOT include the ~$550M K-3 Class Size Reduction deferral.

$2.0B

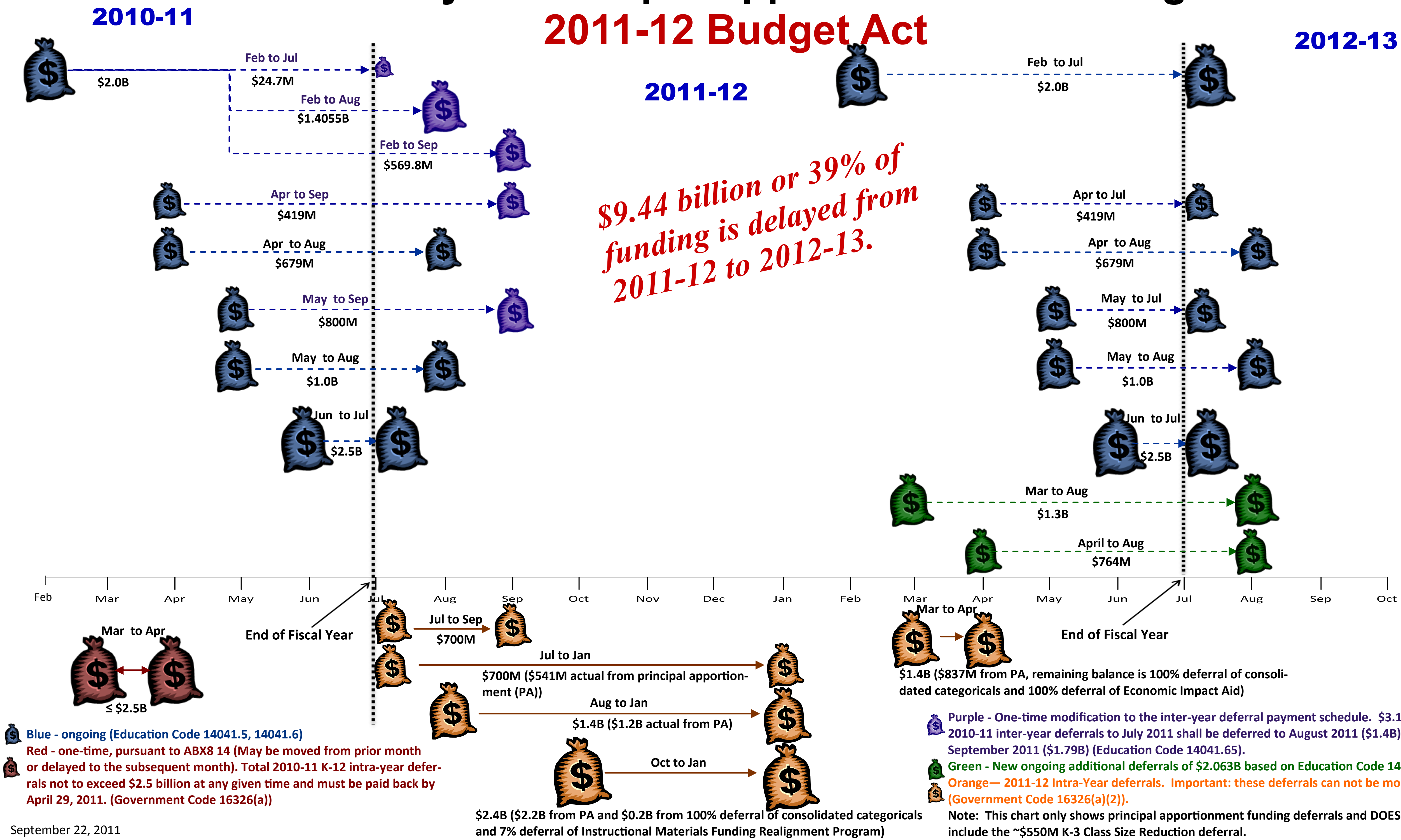
Feb

ATTACHMENT A

ATTACHMENT A

Delayed Principal Apportionment Funding

2011-12 Budget Act



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Purple - One-time modification to the inter-year deferral payment schedule. $3.19B of the 2010-11 inter-year deferrals to July 2011 shall be deferred to August 2011 ($1.4B) and September 2011 ($1.79B) (Education Code 14041.65).

Green - New ongoing additional deferrals of $2.063B based on Education Code 14041.6(d).

Orange— 2011-12 Intra-Year deferrals. Important: these deferrals can not be moved (Government Code 16326(a)(2)).

Note: This chart only shows principal apportionment funding deferrals and DOES NOT include the ~$550M K-3 Class Size Reduction deferral.

September 22, 2011