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

DATE: May 25, 2011

TO: District Chief Business Officials, District Fiscal Directors,
Joint Powers Authorities (JPA) Directors

FROM: Nimrat Johal
Director, District Business and Advisory Services

VIA: Kenneth Shelton
Chief Business Officer

SUBJECT: **2011-12 Budget Guidelines Updated from the May Revise**

The Governor's May Revision contains a number of updates to the proposed 2011-12 State Budget released in January. While acknowledging higher than expected revenues, the May Revise does not increase the expenditure authority of school districts. Additionally, as with the January proposal, the Governor's Budget proposal continues to depend on an election to extend certain taxes. The information contained in this bulletin is provided as a budget development guide for school districts in Santa Clara County.

Education Code section 42127 requires the Governing Board of each school district to hold a public hearing on the annual budget of the school district and to submit the adopted budget to their respective county superintendent of schools. This must be done on or before July 1 of each year. The following represents the general assumptions and parameters that the Santa Clara County Office of Education (SCCOE) is recommending districts use in the preparation of their Budgets for Fiscal Year (FY) 2011-12.

Revenue Limit Districts

We recommend use of the School Services of California (SSC) Dartboard in the development of the 2011-12 Budget and the related Multi Year Projections (MYPs) for 2012-13 and 2013-14.

2011-12 Budget Projections

- 2.24% cost-of-living adjustment (COLA); deficit factor of 19.754% (taken together, "flat funding").
- Unrestricted lottery revenue of $111 per Average Daily Attendance (ADA); restricted lottery revenue of $17.50 per ADA.
- $330 per ADA on-going Revenue Limit reduction, should the temporary taxes expire.

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2012-13 Budget

- 3.2% COLA, deficit factor of 19.754%.
- Unrestricted lottery revenue of $110 per ADA; restricted lottery revenue of $17.20 per ADA.

2013-14 Budget

- 2.7% COLA, deficit factor of 19.754%.
- Unrestricted lottery revenue of $108.75 per ADA; restricted lottery revenue of $17.20 per ADA.

The Governor's May Revision to the Budget Proposal is predicated upon the passage of the extension of certain taxes and the continuation of the increase in personal income tax revenue.

Under current law, the temporary tax extensions expire at the end of 2010-11. The May Revision proposes flat funding with districts receiving the same level of funding for revenue limits and most categorical programs in 2011-12 as in 2010-11. This proposed level of funding is based on increased revenues from an extension of certain taxes that is subject to voter approval. Also included in the projection is an increase of $6.6 billion in General Fund revenues accruing from an unanticipated increase in personal income tax revenues in 2011.

While there is a commitment on the part of the Governor to protect K-12 funding by keeping it flat, there are inherent uncertainties in the proposal due to the reliance on resources that may not materialize. Based on these uncertainties, we strongly recommend that districts continue to preserve any cost-containment measures already taken (that adjusted for the $330 per ADA reduction) until a State Budget is enacted.

Basic Aid Districts

The May Revision of the 2011-12 Budget Proposal also implements a "fair share" reduction to basic aid districts. This reduction amounts to 8.92% of the revenue limit subject to deficit (line C-1 on the revenue limit form), or the excess taxes (line E-1), whichever is less. The California Department of Education (CDE) will use the P-2 data for fiscal years 2010-11 and 2011-12 to calculate these amounts. Some key points of this reduction are as follows:

- Fair share reduction is intended to be an on-going item; however, it must be reenacted every year.
- There is a restoration clause to reduce the fair share amount, similar to the one that applies to revenue limit districts.
- Special Education is exempt from the reduction; however, not exempt from the calculation to determine the fair share amount.

The reduction is for fiscal year 2010-11 but will be taken in 2011-12 and subsequent years. CDE will take the reduction from any state categorical programs except for ASES, Child Care, and QEIA. CDE has also indicated that they may take it from other programs like Basic Aid Supplement or Basic Aid Choice if necessary.

Cash Projections and Cash Flow

The January Budget Proposal called for a new inter-year deferral of $2.1 billion that would defer payments from March and April 2011 to August 2011. However, the Governor's May Revision reverses the $2.1 billion deferral from March 2011 and April 2011 to August 2011. California Senate Bill (SB) 70 added a one-time modification to the February 2011 to July 2011 deferral as follows:

- $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 May Revision reduces the above deferral from $2 billion to $1.5659 billion. 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 $7.0 billion will be deferred from 2011-12 to 2012-13. The percentage of principal apportionment funds deferred across fiscal years in 2011-12 is 26%. Please find included Attachment A. Delayed Principal Apportionment Funding chart.

2010-11		**2011-12**	
Deferral Amount	**Timeframe**	**Deferral Amount**	**Timeframe**
$24.7 million	February 2011 to July 2011	$1.5659 billion	February 2012 to July 2012
$1.4055 billion	February 2011 to August 2011		
$569.8 million	February 2011 to September 2011		
$420 million	April 2011 to July 2011	$420 million	April 2012 to July 2012
$679 million	April 2011 to August 2011	$679 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**	**$7.0 billion**	**Deferred across fiscal years**

In light of the all the deferred apportionments coupled with decreases in fund balances, we recommend extra care and attention be placed on district cash demands. While cash-flow analyses and monitoring are always important, the dynamics of this State budget proposal will place additional pressures on districts to meet their obligations. The Budget Cash Flow projections need to reflect this careful analysis as well as the new apportionment schedule. To fully assess the impact of the these deferrals on district solvency, we are requesting school districts to submit additional cash-flow data to include the first quarter of fiscal year 2012-13.

Payroll Rates
PERS – 7% Employee and 10.923 % Employer for 2011-12.

STRS – 8% 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 - 4.2% Employee and 6.2% Employer for 2011.

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

Mandated Programs
Although the 2011-12 Budget includes some funding for state mandates, we recommend that funds are not budgeted until actually received.

Mental Health
The Governor proposes to shift Special Education mental health services (AB 3632 services) from county mental health departments to school districts in 2012-13. A corresponding shift of $221.8 million in funding and a re-benching of the Proposition 98 Guarantee of the same amount would accompany the shift in responsibilities. The Governor's proposal would permanently repeal the AB 3632 mandate for county mental health agencies and would require schools to provide the mental health services, including out-of-home residential services. The total amount of funding proposed is $389.4 million, with $68 million in Federal Funds (county office flow-through funds), $98.6 million in Proposition 63 funds (Mental Health Services Act), and the $221.8 million increase in Proposition 98 funds. Districts are cautioned that funding allocations will be based on total student count rather than services provided, similar to the current AB 602 formula.

In Santa Clara County, there have been extensive discussions on this topic. We recommend that district business officials continue to work closely with their Special Education counterparts and their district's SELPA to monitor the progress on the reconciliation of district student records and services provided. We recommend this step so that a reasonably accurate estimation of the related expense can ultimately be included in the district's budget.

Multi-Year Projection
Please include with your Budget report, a clear statement of assumptions including the estimated ADA that is being used to calculate revenue limit income. If expenditure reductions are reflected in MYP, we request that the district provide details. For example, if the reductions are staffing related then please provide in your analysis the specific number of Full Time Equivalents (FTE) positions being reduced.

Reserve for Economic Uncertainty
The Proposed Governor's Budget for 2011-12 extends the option to reduce the minimum reserve for economic uncertainty (REU) for an additional two years until June 30, 2014. However, current statute requires school districts to make progress during 2012-13 towards restoring the

REU to the percentages established in the Criteria and Standards. Full restoration of the REU must be reached by June 30, 2014. 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 suggest more 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 the deadline.

Charter Schools

Education Code Section 47604.33(a)(1) requires charter schools to submit their Budget reports to their chartering agencies and to the COE by July 1, 2011. We recommend that districts coordinate with charter schools authorized under their jurisdiction to ensure timely submission of these reports.

Charter schools are not required to use a particular format for Budget reports but the existing Budget forms in the SACS software are available for their use. Charter schools may also choose to do a multi-year projection.

Additional Information

We request that the following additional information be quantified/projected and included in the district narratives submitted with the Budget Report (if applicable):

1. **Declining Enrollment Status**

   For those districts experiencing declining enrollment, we request that the district define the budgetary impact of the anticipated ADA loss, including:
   - the ADA number decline expected, and
   - the dollar amount loss in revenue that this decline translates to.

2. **Deficit Spending**

   For those districts that are projecting budget year expenses greater than budget year revenues, we request an estimate of the amount of "deficit spending". We are defining deficit spending as current year revenues minus current year expenses. Additionally, we are requesting a projection that includes beginning balance projections and one-time funds to show if there is a projected true deficit.

Timeline

We remind districts that Budget Reports are due to the County Office no later than July 1st, 2011. Reports may be submitted earlier than this due date and we appreciate early submissions.

Concluding Comments

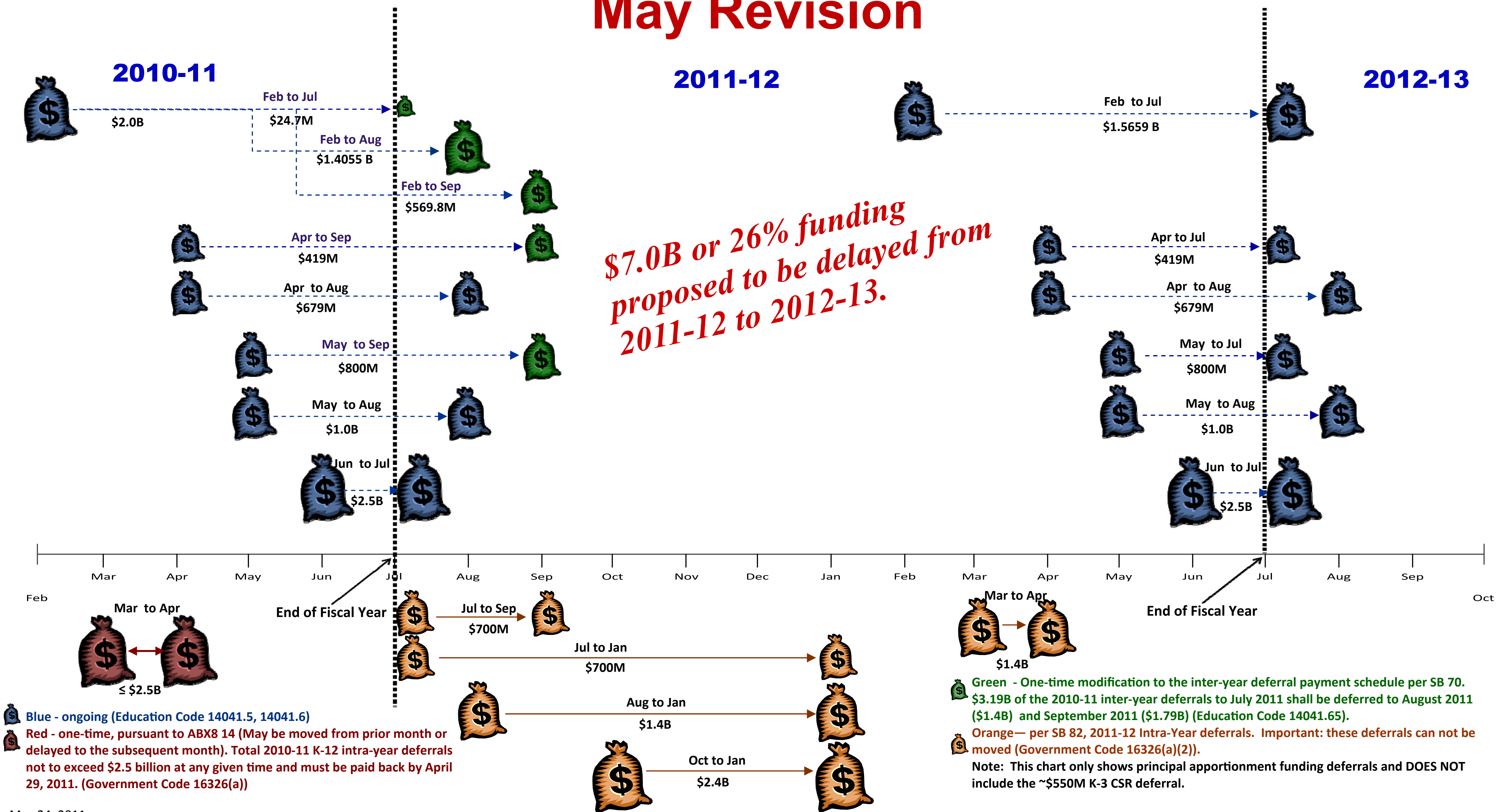
While there is a commitment on the part of the Governor to protect K-12 funding by keeping it flat, there are inherent uncertainties in the proposal due to the reliance on resources that may not materialize. Based on these uncertainties, again we strongly recommend that districts continue to preserve any cost-containment measures already taken until a State Budget is enacted. Each district should assess its specific situation and make budget-year decisions and out-year plans accordingly.

If you have any questions regarding this advisory, please feel free to call me at (408) 453-6599. For questions about this advisory and your specific district, please contact your district's Advisor: 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.

ATTACHMENT A

Delayed Principal Apportionment Funding

May Revision



May 24, 2011