

LOS ANGELES COUNTY OFFICE OF EDUCATION

2008-09 STATE BUDGET ACT

WHAT SHOULD DISTRICTS BE DOING?

- Plan for current year plus two years (plus, plus)
- Review assumptions regarding interest income
- Spend restricted dollars first and conserve cash
- Stay current with enrollment and staffing
- Build reserves and fund balance, if possible
- Be careful about debt, including OPEB bonds
- Manage cash
- Forego big/expensive budget decisions when possible

This is a multiyear issue!

Current and Multi-year Projections

With the late adoption of the Budget Act, school districts have had little time to develop plans that reflect the changes recommended by the County Office for the current and two subsequent years. LACOE's "First Interim Report Assumption Guidelines" in this section reflect the recommendations made by county offices statewide to school districts for planning for 2008-09, 2009-10 and 2010-11 (see also "Fiscal Oversight Guidance for School Districts" in the Appendix). **These recommendations include the continuation of the revenue limit deficit and zero percent COLA for both revenue limit and categorical programs for 2009-10.**

Although a statutory COLA has been projected for 2010-11, there is no certainty that the COLA will be funded. The County Office is recommending that districts exercise caution when developing 2010-11 financial forecasts based on the statutory COLA. Districts are urged to use the County Office recommendations in the development of their First Interim Reports. These recommendations may change considerably when the Governor's 2009-10 Proposed Budget is released in January 2009.

First Interim Reports

Reserve Levels

District interim report certifications are based upon the ability of a district to meet its financial obligations in the current and two subsequent years. This also includes meeting the reserve requirements in the State Criteria and Standards. The flexibility provision in the May Revision that would have authorized a reduction in the reserve requirements was not included in the Budget Act; therefore the reserve requirements remain unchanged for all years.

The County Office feels that the current reserve percentages in the Criteria and Standards are the **minimum** reserve levels that should be maintained in times of budget uncertainty. We also recommend that districts use caution when using one-time reserve dollars for ongoing expenditures, to avoid the financial problems associated with deficit spending in the out years.

Board Commitment to Take Action to Meet Reserve Requirements

Because of the shortened time frame between the adoption of the Budget Act and the submission of the First Interim Report and due to the limited amount of time for districts to develop financial plans using the County Office recommendations, districts

may find they are unable to meet their reserve requirements in the current and/or two subsequent years at First Interim. Should this occur, the County Office strongly suggests that the district board adopt a resolution and submit it along with the district's First Interim Report. The resolution should reflect the following information:

- The total size of the district's shortfall in 2008-09 and/or 2009-10
- The board's commitment to implement a specific dollar amount of ongoing expenditure reductions and/or revenue enhancements to resolve the shortfall(s)
- The board's commitment to submit along with its 2008-09 Second Interim Report, a detailed list of board-approved ongoing budget adjustments that restore its reserves to the required levels

First Interim Certifications

Districts must submit a positive, qualified or negative certification with their First Interim Reports. A positive certification indicates that the district **will** meet its financial obligations in the current and two subsequent years. A qualified certification indicates that the district **may** not be able to meet its financial obligations in the current or two subsequent years. A negative certification indicates that the district **will** not be able to meet its financial obligations in the current or subsequent fiscal year.

Districts that cannot meet their reserve levels at First Interim may decide to self-certify as "qualified" or "negative." The County Office can also change a district's certification, based on its analysis of the financial data in the First Interim Report.

The County Office will consider a district's board resolution (as described above) as **one part** of its overall analysis of a district's fiscal condition and its ability to meet the State Criteria and Standards' reserve level. The County Office will also apply its First Interim Report assumptions when evaluating district solvency. Districts choosing to use other assumptions should include a detailed narrative describing those assumptions when submitting their First Interim Reports.

The County Office's First Interim Report bulletin will be released shortly and will provide additional detail on the process and assumptions for districts to use in planning for the First Interim Report.

The following chart outlines the legal impact on a district of a qualified or negative interim report certification.

Qualified/Negative Interim Report Certification

Legal Impact on District

Qualified Certification

Negative Certification

District is required to:

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- | | |
|---|--|
| <ul style="list-style-type: none">• Submit a proposal to the CSS that addresses the district's fiscal conditions ("fiscal recovery plan") (<i>EC Section 42127.6(a)(2)</i>)
• Prepare a "third interim report" and submit it to the CSS, SPI, and SCO (if Second Interim is qualified) (<i>EC Section 42131(e)</i>)
• Not issue non-voter approved debt instruments in that fiscal year, or the next, unless the CSS determines repayment is probable (<i>EC Section 42133(a)</i>)
• Give the CSS at least 10 working days to review and comment on any proposed collective bargaining agreements (<i>GC Section 3540.2(a)</i>) | <ul style="list-style-type: none">• Submit a proposal to the CSS that addresses the district's fiscal conditions ("fiscal recovery plan") (<i>EC Section 42127.6(a)(2)</i>)
• Prepare a "third interim report" and submit it to the CSS, SPI, and SCO (if Second Interim is negative) (<i>EC Section 42131(e)</i>)
• Not issue non-voter approved debt instruments in that fiscal year, or the next, unless the CSS determines repayment is probable (<i>EC Section 42133(a)</i>)
• Give the CSS at least 10 working days to review and comment on any proposed collective bargaining agreements (<i>GC Section 3540.2(a)</i>)
• Obtain CSS approval of audit contract if district has received negative certification in current or in either of two preceding fiscal years (<i>EC Section 41020(b)(2)</i>)
• CSS is authorized to appoint a fiscal advisor with authority to stay or rescind board actions (<i>EC Section 42127.6(c)(e)</i>) |
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THE LOS ANGELES COUNTY OFFICE OF EDUCATION
 DIVISION OF BUSINESS ADVISORY SERVICES
 FIRST INTERIM ASSUMPTION GUIDELINES
 PROJECTIONS FOR FISCAL YEARS 2008-09 THROUGH 2010-11

Assumptions must be submitted to support data for the budget and two subsequent years. The guidelines indicated below are provided to assist you with projections for fiscal years 2008-09, 2009-10, and 2010-11.

REVENUE LIMIT			
FACTOR	2008-09	2009-10	2010-11
Statutory COLA	5.66%	5.60%	3.50%
Revenue Limit Deficit	4.71%	9.766%	9.766%
Net Funded COLA	0.68%	0.00%	3.50% ³
SPECIAL EDUCATION AND CATEGORICAL PROGRAMS			
	2008-09	2009-10	2010-11
Special Ed COLA (on state and local share only)	0.00%	0.00%	3.50% ³
Categorical COLA (Including Adult Ed and ROC/P)	0.00%	0.00%	3.50% ³
Special Education Mandate Settlement: One-time Unrestricted Funding ¹	\$4.51/ADA	\$4.51/ADA	\$4.51/ADA
LOTTERY REVENUE ²			
FACTOR	2008-09	2009-10	2010-11
Unrestricted	\$118/ADA	\$118/ADA	\$118/ADA
Restricted for Instructional Materials	<u>19/ADA</u>	<u>19/ADA</u>	<u>19/ADA</u>
Total Lottery Revenue	\$137/ADA	\$137/ADA	\$137/ADA
OTHER			
FACTOR	2008-09	2009-10	2010-11
Interest Rate for 10-year Treasuries	3.50%	4.00%	4.40%
California Consumer Price Index (CPI)	4.50%	2.80%	2.50%
Other Expenses (4000s – 6000s)	2007-08+CPI	2008-09+CPI	2009-10+CPI

¹Based on 1999-2000 P-2 K-12 district ADA. The \$4.51/ADA continues through 2010-11.

²Lottery funding is based on actual ADA (e.g., excluding excused absences), multiplied by a statewide excused absence adjustment rate of 1.04446.

³Please note that there is no assurance that out-year COLAs will be funded

CASH FLOW ISSUES

A number of new deferrals of district apportionments were enacted and/or will be applied in 2008-09, creating a heightened level of concern regarding district cash flow.

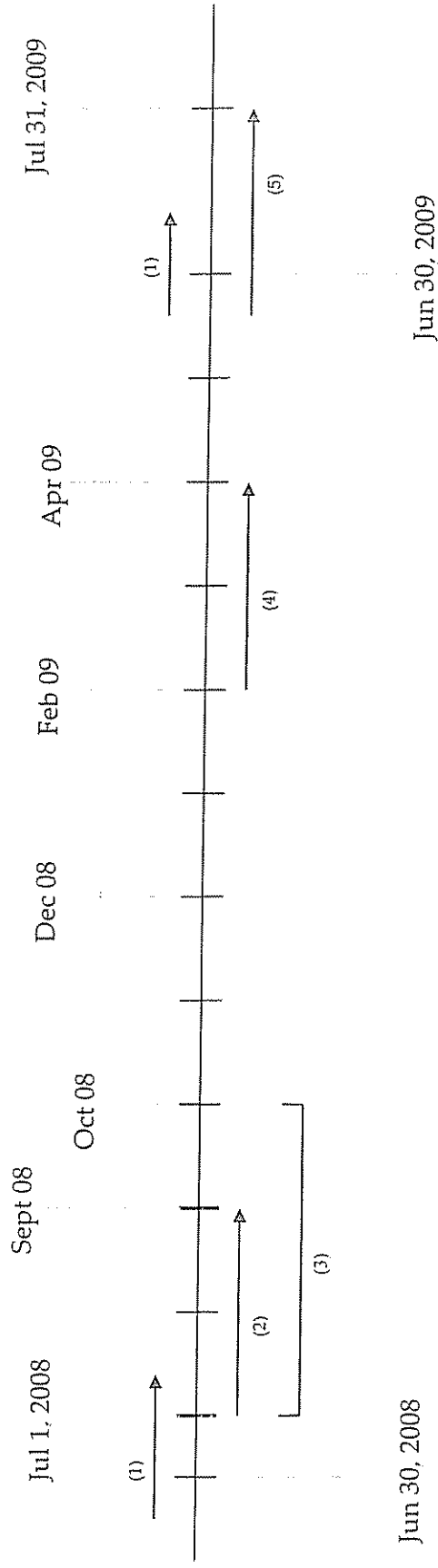
- Fiscal year 2008-09 marks the seventh consecutive year in which the P-2 Apportionment was released around the first week of July, instead of on or about June 25.
- As part of the 2007-08 mid-year budget reductions adopted under ABX34 (Chapter 2/Statutes 2008) in February 2008, districts that normally receive six percent of their annual appropriation in July received only 0.9 percent, with the balance of 5.1 percent being deferred to September.
- Without a state budget in place, payments of the Advance Principal Apportionment included the 5.66 percent statutory COLA. However, the Budget Act adjusted the funded COLA down to 0.68 percent retroactively to July 1, 2008. This adjustment was incorporated into the October Recertified Advance Apportionment and Principal Apportionment payment. Funding that is not authorized under continuous appropriation, such as for categorical programs not paid through the Principal Apportionment, was released per the payment schedule beginning in October.
- AB 1781 defers fifty percent of the February 2009 Principal Apportionment and K-3 CSR funding to the latter half of April 2009 for 2008-09 only.
- AB 519 gives the CDE until July 31, 2009, to release the June 2009 Principal Apportionment.

These apportionment deferrals and adjustments represent a significant disruption to normal cash flow patterns, and therefore districts should take steps to ensure that appropriate levels of cash are set aside to meet each month's obligations during 2008-09. Many districts have used short term funding vehicles such as TRANs to bridge cash shortfalls, as well as borrowing from other district funds. TRANs must be paid back with revenues from the same fiscal year for which the TRANs are issued. Districts should submit 2008-09 cash flow projections, **with all the deferrals and adjustments noted above**, along with their First Interim report.

The chart on the following page depicts the various deferrals and when they occur in relationship to one another. See also "Investing and Safeguarding District Funds" in the Appendix.

2008-09 Cash Deferrals and Adjustments Timeline

1. Since 2002-03, the June P-2 Apportionment has been deferred from late June to early July
2. ABX3 4 deferred the July 2008 Advance Apportionment to September, for **2008-09 only**
3. Adjustments due to late budget (COLA adjusted from 5.66% to 0.68% in October 2008)
4. AB 1781: part of the February 2009 Principal Apportionment and K-3 CSR deferred to April 2009 for 2008-09 only.
5. AB 519: gives CDE until July 31, 2009, to distribute the June 2009 Principal Apportionment



Historical and Projected Funded Revenue Limit
for
Hermosa Beach Elementary School District
2007-08 through 2010-11

	2007-08	2008-09	2009-10	2010-11
Prior Year Revenue Limit per ADA	\$ 5,541.84	\$ 5,782.84	\$ 6,097.84	\$ 6,426.84
Statutory COLA	4.53%	5.66%	5.60%	3.50%
COLA Increase (as based on statewide average)	\$ 241.00	\$ 315.00	\$ 329.00	\$ 217.00
Revenue Limit per ADA	\$ 5,782.84	\$ 6,097.84	\$ 6,426.84	\$ 6,643.84
Deficit	0.00%	4.71%	9.766%	9.766%
Funded Revenue Limit per ADA	\$ 5,782.84	\$ 5,810.45	\$ 5,799.19	\$ 5,995.00
% Change from Prior Year Funded Revenue Limit per ADA	4.35%	0.48%	-0.18%	3.05%
Funded COLA Based on Statewide Averages	4.53%	0.68%	0.00%	3.50%
ADA	1,095.81	1,125.81	1,125.81	1,125.81
Total Revenue Limit	\$ 6,336,894	\$ 6,541,461	\$ 6,528,792	\$ 6,749,234

Los Angeles County Office of Education
Business Advisory Services Division
November 12, 2008

Clerk of the Hermosa Beach School Board:

This is a **Supplemental** 'Written Communication' for agenda **Item VII-B** (Written communications) of the November 12, 2008 HB School Board meeting. Please convey to those listed at/prior to the meeting. **Thank You.**

November 10, 2008

To: The Hermosa Beach School Board and Administration

From: Howard Longacre, a Hermosa Beach Resident

Re: Posting of meeting agendas on the "HB-Granicus" and School District web site to also be prior to the 72-hour minimum notice currently made in the district office window.

Honorable Members of the Hermosa Beach School Board:

I understand that an agenda (without staff materials) is posted in the district office window, freely visible from outside, at Hermosa Valley School, 72 hours or more prior to each of your meetings. This is as per California's Brown -open meeting- Act's section 54954.2 requirements

It would be appropriate and useful that the board set a policy for such agenda postings to also be made 72-hours or more prior to your meetings on the School Board's web site, and also the newer "HB-Granicus" section of the Hermosa Beach city web site.

There has been some mention/ruling (unfortunately I can not indicate a verifiable source) that when a Brown Act body utilizes a web site to post agendas, such agenda postings are also to meet the time requirements of the Brown Act, as otherwise it leads to confusion for members of the public believing that there is not a meeting when such postings are not made in a dependable timely manner (technical Internet/computer problems notwithstanding). The Board would best consult with their counsel if they would choose to not set a policy for consistency to ensure that 72-hour posting of agendas for all meetings are accomplished at the three locations presently utilized for agenda postings

- 1- Window of District Office
- 2- School Website <http://www.hbcasd.org/>
- 3- Hermosa Beach City Website <http://www.hermosabch.org/>

-end of supplemental-

