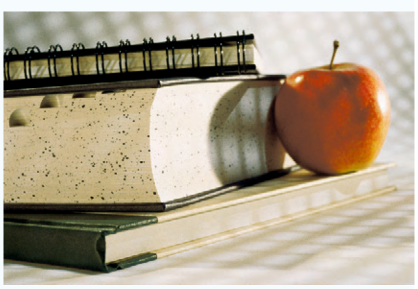
Fiscal Crisis & Management Assistance Team

Fiscal Oversight Guide

For AB 1200, AB 2756 and subsequent related legislation



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Superintendent of Schools

Chief Executive Officer
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A Resource for Educational Agencies

September 2006

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A Publication of the

Fiscal Crisis and Management Assistance Team

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Introduction

Assembly Bill 1200 has been successful in focusing the attention of school districts and county offices of education on their fiscal management and oversight responsibilities. Since the enactment of AB 1200 in 1992, fewer districts have experienced fiscal crisis. From 1993 through 2000, no state emergency loans were requested and the number of qualified and negative certifications decreased. However, in recent years, requests for state emergency loans and the number of negative certifications have both increased. A number of factors have contributed to these increases: the state's economy, declining enrollment trends, escalating general fund encroachment, and a shortage of skilled personnel at multiple management levels. County superintendents of schools and school districts continue to play a critical role in the fiscal health of local educational agencies (LEAs). The first level of fiscal oversight remains with the local elected board of education and their administration. The county superintendent of schools, as the intermediate agent between the state and the LEAs, is responsible for the fiscal oversight of the school districts in his or her county. As the fiscal oversight agency, the county superintendent of schools provides management assistance and progressive intervention to local school districts.

County superintendents of schools and school districts continue to play a critical role in the fiscal health of local educational agencies.

In addition to increasing the authority and responsibilities given to county offices, AB 1200 created the Fiscal Crisis and Management Assistance Team (FCMAT) to serve LEAs by providing fiscal crisis intervention and management assistance. As part of that responsibility, FCMAT provides information, services and products to the state's local educational agencies and policy makers. Ninety percent of FCMAT's work is a result of an LEA inviting FCMAT to perform proactive, preventive services. Ten percent of FCMAT's work is fiscal crisis intervention assigned by the state Legislature and oversight agencies.

As a response to AB 1200 and subsequent fiscal oversight legislation, FCMAT, in collaboration with other interested parties, developed and released the *AB 1200 & Related Responsibilities* guide in February 2000. That guide was made possible with the assistance of staff from the California Department of Education, county superintendents of schools' staff, the Business Administration Steering Committee (BASC) of the California County Superintendents Educational Services Association (CCSESA), and the School Financial Services Subcommittee (SFSS) of CCSESA. The *AB 1200 and Related Responsibilities* guide has served local educational agencies and state policy makers well for the last five years.

Since the February 2000 publication of the *AB 1200 and Related Responsibilities* guide, the state Legislature has enacted important fiscal oversight legislation. In June 2004, the state Legislature approved and the Governor signed AB 2756, a major revision and addition to the current fiscal oversight practices. This new *Fiscal Oversight Guide* provides local educational agencies and state policy makers with an informative and useful document clarifying the roles and responsibilities of fiscal oversight agencies. Many agencies and individuals made valuable contributions to this document. The *Fiscal Oversight Guide* does not replace any document or advisory from the California Department of Education on this subject. Rather, it is intended to provide current information relative to the roles and responsibilities of county superintendents of schools under AB 2756 and related legislation.

AB 2756 required the Superintendent of Public Instruction (SPI), Controller and Department of Finance (DOF) to update the state standards and criteria on or before September 1, 2005. The updated standards were approved by the State Board of Education on July 6, 2005. The California Department of Education, in collaboration with other agencies, will provide training related to the new criteria and standards. These new standards and criteria are applicable to local educational agency budgets beginning with the 2006-07 fiscal year. These newly adopted state standards and criteria are included in Appendices A and B of this guide.

FCMAT has found that guides such as this one continually evolve. As new legislation is passed and statutory regulations are enacted, the guide requires revision. When using the *Fiscal Oversight Guide* guide, please be sure to always reference the education code, new legislation, and CDE advisories related to these matters. FCMAT also welcomes suggestions for improvements or changes to this guide.

This guide uses paraphrased sections of pertinent education codes when they are referenced. For a more meaningful understanding and thorough review, the reader needs to consider the entire code section in context.

FCMAT Services

As referenced in the Introduction, AB 1200 created an independent and external entity known as the Fiscal Crisis and Management Assistance Team (FCMAT). The Legislature intended FCMAT to help local educational agencies (LEAs) avert fiscal insolvency and to provide management assistance upon an LEA's request. Since 1992, FCMAT has assisted more than 550 school districts and county offices of education. Most recently, the state Legislature added charter schools and community colleges as entities that have access to FCMAT services.

This guide focuses on the oversight authority and responsibilities of county superintendents. Because many superintendents have come into their positions since the last AB 1200 guide was published, this section provides a summary of the circumstances under which FCMAT services may be used.

Since 1992, FCMAT has assisted more than 550 school districts and county offices of education.

Accessing FCMAT services

FCMAT can be *invited* into a county office of education, school district, charter school or community college to provide management assistance related to the fiscal health of the LEA. FCMAT can also be *assigned* by the Superintendent of Public Instruction, the county superintendent of schools, the FCMAT Governing Board, the California Community Colleges Board of Governors or the state Legislature to provide management assistance and/or fiscal crisis intervention. Ninety percent of FCMAT's work is a result of an LEA inviting FCMAT to perform proactive, preventive services. Ten percent of FCMAT's work is a result of assignments by the state Legislature and oversight agencies to conduct fiscal crisis intervention.

FCMAT Staff

The Fiscal Crisis and Management Assistance Team is a resource for the state Legislature, Superintendent of Public Instruction, county offices of education, school districts, charter schools and California community colleges. The internal and external team includes members with expertise and experience at county offices of education, school districts, charter schools and community colleges. These experts come from both the public and private sectors. These professionals have an established record of expertise in serving school districts, county offices of education, charter schools and community colleges.

When its services are requested, FCMAT assembles a study team that best meets the specific demands and scope of the requested study. The team works in close collaboration with the client local education agency.

Superintendent of Public Instruction

The Superintendent of Public Instruction may request FCMAT's assistance in the following instances:

- Disapproved county office of education budgets [E.C. 1624].
- Fiscal expert and budget review study for county office of education budgets [E.C. 1630].
- Standards and criteria noncompliance review [E.C. 33129].
- Disapproved LEA budget [E.C. 42127.3 (b)].
- Assist with LEA budget review and revision [E.C. 42127.6 (c)].
- Appeal procedures [E.C. 42127.9].
- Closure of military facility [E.C. 42238.2].
- To review the fiscal and administrative condition of any county office of education, school district, or charter school [E.C. 42127.8 (c)].

County Superintendent of Schools

The county superintendent of schools may request FCMAT's assistance in the following tasks:

- Review the fiscal or administrative condition of any school district or charter school in his or her jurisdiction [42127.8(c) (2)].
- Provide fiscal management assistance [E.C. 42127.8(d) (1)].
- Facilitate training for the county superintendent related to fiscal accountability [E.C. 42127.8(d) (2)].
- Facilitate training in fiscal management and related fiduciary duties for staff in county offices of education through the 10 county service regions [E.C. 42127.8(d) (3)].
- Review teacher hiring practices; teacher retention rate; percentage of highly qualified teachers; and extent of teacher misassignment, as well as other provisions [E.C. 42127.6(a)(1) (G)].

Local Educational Agency

A local educational agency may request FCMAT's assistance in the following areas:

- Fiscal and other management assistance [E.C. 42127.8(d)(1)].

FCMAT Governing Board

The FCMAT Governing Board may ask the team to provide contracts and professional services as management assistance to school districts, charter schools, or county superintendents of schools in which the board determines that a fiscal emergency exists [E.C. 42127.8 (e)].

State Legislature

The state Legislature has assigned FCMAT to various school districts to conduct comprehensive assessments in five operational areas: financial management, facilities management, personnel management, community relations/governance, and pupil achievement. These assignments typically require FCMAT to report on the district's progress over time related to the assessment. These progress reports are submitted to the district, county office of education and various state policy makers at designated periods specified by the legislation.

Charter Schools

A charter school may request FCMAT's assistance in accordance with the provisions of SB 430 (Runner) and E.C. Section 42127.8(d)(1).

- Fiscal management assistance.

California Community College District

The Board of Governors may request that FCMAT assist a community college district in accordance with AB 1366 (Leiber) and E.C. 84041.

- Establish or maintain sound financial and budgetary conditions.
- Comply with principles of sound fiscal management.
- Conduct a management review of the district and its educational programs.
- Audit the financial condition of the district.
- Provide management assistance or fiscal crisis intervention.

A community college district may request that FCMAT do the following: [E.C. 84041]

- Provide fiscal management assistance.
- Facilitate training for members of the district governing board and for any district employee whose responsibilities include addressing fiscal issues.

Districts in State Receivership

Under an Emergency Loan Provision the SPI/State Administrator has the following options and responsibilities:

- May consult with and seek recommendations from FCMAT for purposes described in Article 2.5 of E.C. 41325.
- Shall discuss with FCMAT options for resolving the fiscal problems of the emergency loan district (E.C. 41326.1(f), 41326(k)(1)].

- Shall, in consultation with FCMAT, review the fiscal oversight of the district by the county superintendent of schools (E.C. 41326 (k) (1)].
- Receive from FCMAT the improvement plans specified in E.C. Section 41327.1.
- Receive a minimum of two reports from FCMAT identifying the district's progress in implementing the improvement plans [E.C. 41326].

Budget Adoption Process

I. The governing board shall hold a public hearing on or before July 1 of each year and shall post the agenda for the hearing at least 72 hours before meeting and shall include the location where the budget is available for public inspection [E.C. 42127 (a) (1); E.C. 42103]. Notice of the date and location of the public hearing shall be posted no earlier than 45 days and no later than 10 days prior to the hearing by the county superintendent of schools in a newspaper of general circulation [E.C. 42103].

II. School districts shall adopt a budget on or before July 1 of each year [E.C. 42127 (a) (2)].

A. The governing board shall file the budget with the county superintendent within five days of adoption or by July 1, whichever occurs first [E.C. 42127 (a) (2)].

The governing board shall file the budget with the county superintendent within five days of adoption or by July 1, whichever occurs first.

B. The governing board elects and notifies the county superintendent in writing of the decision to use the single budget option. This election shall be made by October 31 of the preceding year [E.C. 42127 (i)]. If the board does not elect to use the single budget option, a dual budget option is required [E.C. 42127 (e) (g)]. The form utilized to make this election is the certification page for the unaudited actuals.

1. The dual budget option requires a revised and readopted budget by September 8. The revised budget must reflect changes in projected income and expense subsequent to July 1 and includes any response to recommendations of the county superintendent of schools. The district needs to advertise the date, time and location of the public hearing [E.C. 42127 (e), E.C. 42103].

2. The single budget is readopted only if it is disapproved pursuant to E.C. 42127 (d) or as needed; and no later than 45 days after the state budget is signed by the Governor, the district must make available for public review any revisions made necessary by the Budget Act [E.C. 42127 (i) (4)].

III. For both dual and single budgets submitted on July 1, the county superintendent shall:

A. Examine the adopted budget for compliance with the state standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance [E.C. 42127 (c) (1)].

B. Determine if the budget allows the district to meet its financial obligations and is consistent with a financial plan that will enable the district to satisfy its multiyear financial commitments [E.C. 42127 (c) (2)].

C. Review and consider studies, reports, evaluations, or audits of the district that contain evidence of fiscal distress under the standards and criteria or reflect three or more of the 15 most common predictors of a district needing intervention [E.C. 42127 (c) (2)].

D. Either conditionally approve or disapprove a budget that does not provide assurances that the district will meet its current and future obligations and resolve problems identified in studies, reports, evaluations, or audits described above [E.C. 42127 (c) (2)].

IV. On or before August 15, the county superintendent shall approve, conditionally approve or disapprove the adopted budget for each school district [E.C. 42127 (d)].

A. If a school district budget is not submitted to the county superintendent of schools, the county superintendent, at district expense, shall develop a budget for that district by September 15 and transmit that budget to the governing board of the school district. This budget is deemed adopted. This approved budget shall be a guide for the district's priorities. The SPI shall review and certify the district budget approved by the county superintendent [E.C. 42127(d)].

B. Not later than August 15th, if the budget is conditionally approved or disapproved by the county superintendent because it failed to meet the standards outlined in E.C. 42127 (c)(1) and/or E.C. 42127 (c)(2), the county superintendent shall transmit to the governing board, in writing, recommendations regarding revision of the budget and the reasons for the revisions.

1. The county superintendent may assign a fiscal adviser to assist the district with budget development in compliance with those revisions, or appoint a committee to examine and comment on the county superintendent's review and recommendations. If appointed, the committee must report its findings no later than August 20 [E.C. 42127 (d)].

2. If the adopted budget is disapproved pursuant to E.C. 42127(d), the governing board and the county superintendent shall review the disapproval and the county superintendent's recommended budget revisions at the public hearing [E.C. 42127(e), 42127(i)(1)].

3. Any recommendations made by the county superintendent pursuant to subdivision (d) of section 42127 shall be made available by the district for public inspection in a facility of the district or some other place conveniently accessible to residents of the district [E.C. 42103, E.C. 42127 (e)].

4. No later than September 22, the county superintendent shall provide a list to the Superintendent of Public Instruction identifying all school districts for which budgets may be disapproved [E.C. 42127 (f), E.C. 42127 (i) (2)].

V. For all dual budget option districts and for single and dual option districts whose budgets have been disapproved, the following occurs:

A. By September 8, hold a public hearing, revise and readopt its budget, and submit the budget to the county superintendent. The budget should reflect changes in projected income and expenses since July 1, and include any responses to the county superintendent's recommendations [E.C. 42127 (e), E.C. 42103, E.C. 42127 (i) (1)].

B. The county superintendent must determine if the budget conforms with the standards outlined in E.C. 42127 (c) (1) and E.C. 42127 (c) (2); satisfies all conditions established by the county superintendent in the case of a conditionally approved budget; allows the district to meet its multiyear financial commitments applicable to final district budgets; and, no later than October 8, shall (1) approve or disapprove the revised dual budgets [E.C. 42127 (g)] , and (2) approve or disapprove initially disapproved single budgets [E.C. 42127 (i) (3)].

C. If the budget is disapproved, the county superintendent shall call for the formation of a budget review committee pursuant to E.C. 42127 (g) - dual, E.C. 42127 (i) (3) - single, and E.C. 42127.1, unless the district governing board and the county superintendent agree to waive the requirement of the review committee and the department approves the waiver after determining that a budget review committee is not necessary.

D. Upon the grant of a waiver, the county superintendent of schools has the authority and responsibility provided to a budget review committee under E.C. 42127.3. [E.C. 42127(i)(3), 42127.1(a)]

E. Upon approving a waiver of the budget review committee (BRC) the CDE shall ensure that a balanced budget is adopted for the district by November 30. The SPI may extend the November 30 date [E.C. 42127.1(a), 42127(i)(3), 42127(b)(1)].

F. No later than October 8, the county superintendent of schools shall submit a written report to the SPI identifying all school districts for which budgets have been disapproved or budget review committees waived.

G. Until a school district receives approval of its budget, the school district shall continue to operate on the basis of whichever of the following budgets contains a lower total spending authority [E.C. 42127.4].

1. The last budget adopted or revised by the governing board of the school district for the prior fiscal year.

2. The unapproved budget for the current fiscal year, as adopted and revised by the governing board of the school district.

H. If the governing board of any school district neglects or refuses to make a budget, the county superintendent of schools shall not make any apportionment of state or county school money to the district or approve any warrant issued by the school district [E.C. 42128].

BUDGET ADOPTION PROCESS

District governing board holds public hearing and adopts budget with criteria & standards and submits to COE not later than 5 days after that adoption or July 1, whichever occurs first {E.C. 42127 (a)(1)(2), 42127 (i), and 42103}.

Nonsubmittal

If a district does not submit a budget, the county superintendent shall, at district expense, develop a budget by Sept. 15 {E.C. 42127 (d)}.

Single Budget Cycle

- County superintendent of schools performs criteria and standards review and either approve, conditionally approve, or disapprove the budget by 8/15 {E.C. 42127 (c)(d)}.

Approved

- Notify LEA.
- Process ends ***unless***

Budget Revisions due no later than 45 days after Governor signs Budget Act {E.C. 42127 (i) (4)}.

- LEA responds to COE recommendations/conditional approval.
- Files budget with COE by 9/8 {E.C. 42127 (e)}.

Disapproved

- Recommendations to LEA.
- COE may assign fiscal adviser and/or appoint a committee to review and make recommendations {E.C. 42127 (d)}.
- Notifies SPI by 9/22 {E.C. 42127(f)}.

- County Superintendent examines budget by 10/8.
- Budget approved.
- Process ends {E.C. 42127 (i)(3)}.

Disapproved

- COE calls for the formation of a Budget Review Committee (BRC) {E.C. 42127.1} 10/8.
- Notifies SPI by 10/8 {E.C. 42127 (h)}.

Dual Budget Cycle

- County superintendent of schools performs criteria and standards review. and either approves, conditionally approves, or disapproves the budget by 8/15. {E.C. 42127 (c)(d)}.

Approved

- Notify LEA.
- LEA files revised budget 9/8.

- LEA responds to COE. recommendations/conditional approval.
- Files budget with COE by 9/8 {E.C. 42127 (e)}.
- County Superintendent examines budget by 10/8.

- Budget approved.
- Process ends 10/8 {E.C. 42127(g)}.

Disapproved

- Recommendations to LEA.
- COE may assign fiscal adviser and/or appoint a committee to review and make recommendations {E.C. 42127(d)}.
- Notifies SPI by 9/22 of tentative disapproval {E.C. 42127 (i)(2)}.

Disapproved

- County superintendent of schools calls for the formation of a budget review committee {E.C. 42127(i)(3)}.
- Notifies SPI by 10/8 {E.C. 42127 (h)}.

Approval path

Disapproval path

Budget Review Committee Process: Review of the Budget

I. Upon the disapproval of a district budget by the county superintendent of schools, the county superintendent shall call for the formation of a budget review committee (BRC), unless the district governing board and the county superintendent of schools agree to waive the requirement. CDE approval to accept the waiver is contingent on the department determining that a budget review team is not necessary. Upon the grant of a waiver, the county superintendent has the authority and responsibility provided to a BRC in Education Code Section 42127.3. Upon the approval of a waiver, CDE shall ensure that a balanced budget is adopted for the district by November 30 and include fiscal and educational aspects of LEA management [E.C. 42127.1 (a), 42127(i)(3)].

   A. The BRC shall consist of three persons selected by the district's board from a list of candidates provided by the Superintendent of Public Instruction. The candidates shall have expertise in the management of a school district or county office of education and include fiscal and educational aspects of LEA management [E.C. 42127.1 (b)].

      1. The district board has five working days after receiving a list of candidates to select a three-member BRC [E.C. 42127.2 (a)].

      2. The Superintendent of Public Instruction shall convene the committee no later than five working days following the selection of the committee by the district board [E.C. 42127.2 (a)].

      3. If the district board fails to select a committee, the Superintendent of Public Instruction has 10 working days from the date the board received the candidate list to convene a BRC [E.C. 42127.2 (a)].

   B. Alternatively, the BRC may be a regional review committee, consisting of persons having expertise in fiscal and educational aspects of LEA management. The regional review committee is convened by the county superintendent with the approval of the district board and the Superintendent of Public Instruction [E.C. 42127.1 (c)].

      1. The members of the committee shall be reimbursed for their services and associated expenses by the State Department of Education at rates established by the State Board of Education [E.C. 42127.1 (d)].

   C. The county superintendent may request that the Controller's office conduct an audit or review of the fiscal condition of the district to assist a BRC or regional review committee [E.C. 42127.2 (e)].

II. No later than October 31, the BRC shall complete its review of the proposed budget and the underlying fiscal policies of the district and transmit to the county superintendent, the State Superintendent of Public Instruction, and the district board either the recommendation that the school district budget be approved or a report disapproving the budget and providing recommended revisions to the budget that would allow the district to meet its financial obligations [E.C. 42127.2 (b)].

A. The Superintendent of Public Instruction may extend the deadline noted above for no more than 15 working days [E.C. 42127.2 (c)].

B. If the budget is approved by the BRC, the county superintendent of schools shall accept the recommendations and approve the budget [E.C. 42127.3 (a)].

C. If the budget is disapproved by the BRC, the district board has five working days to respond to the State Superintendent of Public Instruction. The response should include any revisions to the budget and other proposed actions to be taken as a result of the BRC's recommendations. Based on the recommendations of the BRC and the response provided by the district board, the SPI shall either approve or disapprove the revised budget [E.C. 42127.3 (b)].

Budget Review Committee Process: Disapproved Budget

If the Superintendent of Public Instruction disapproves the budget under E.C. 42127.3 (b), the Superintendent of Public Instruction will notify the district governing board in writing of the reasons for the disapproval

I. Based on the recommendations of the BRC and any response to those recommendations provided by the governing board of the school district, the Superintendent of Public Instruction shall either approve or disapprove the budget. If the Superintendent of Public Instruction disapproves the budget under E.C. 42127.3 (b), the Superintendent of Public Instruction will notify the district governing board in writing of the reasons for the disapproval. For the remainder of the current fiscal year, the county superintendent of schools shall do the following as necessary:

A. No later than November 30, the county superintendent shall develop and adopt, in consultation with the Superintendent of Public Instruction and governing board of the school district, a fiscal plan and budget that will allow the district to meet its financial obligations, both in the current fiscal year and with regard to the district's multi-year financial commitments. The Superintendent of Public Instruction may extend the date noted above. The governing board shall govern the operation of the district for the current fiscal year in accordance with that adopted budget [E.C. 42127.3 (b) (1)].

B. Cancel purchase orders, prohibit the issuance of nonsalary warrants, and otherwise stay or rescind any action that is inconsistent with the budget adopted under E.C. 42127.3 (b) (1). The county superintendent shall inform the district school board in writing of the justification for exercising this authority [E.C. 42127.3 (b) (2)].

C. Monitor and review the operation of the school district [E.C. 42127.3 (b) (3)].

D. Determine the need for additional staff and employ, subject to approval by the Superintendent of Public Instruction, short-term analytical assistance or expertise to validate financial information if the district staff does not have the expertise or staff [E.C. 42127.3 (b) (4)].

E. Require the school district to encumber all contracts and other obligations, to prepare appropriate cash-flow analyses and monthly or quarterly budget revisions, and to appropriately record all receivables and payables [E.C. 42127.3 (b) (5)].

F. Determine whether there are any financial problem areas and employ, subject to approval by the Superintendent of Public Instruction, a certified public accounting firm to investigate financial problem areas [E.C. 42127.3 (b) (6)].

G. Withhold compensation of the members of the governing board and the district superintendent for failure to provide requested financial information [E.C. 42127.3 (b) (7)].

H. If during the selection of the BRC or during the BRC's review of the budget, an agreement is reached between the governing board of the school district and the county superintendent of schools, and the school district revises its budget to comply with this agreement, the county superintendent of schools shall approve the district budget and the BRC selection, or its review of the budget shall be canceled [E.C. 42127.3 (c)].

I. The school district shall pay 75 percent and the county office of education shall pay 25 percent of the actual administrative expenses incurred or costs associated with improving the district's financial management practices pursuant to Education Code Section 42127.3 (b). County offices of education are eligible to request their 25% costs through a FCMAT reimbursement with the approval of the California Department of Education (CDE) and Department of Finance (DOF) [E.C. 42127.3(d)].

SPI DISAPPROVED DISTRICT BUDGET

Education Code 42127.3(b)

SPI Disapproved Budget

The SPI notifies the LEA board, in writing, of reasons for disapproval. The county superintendent, for the remainder of the current fiscal year,* shall do the following as necessary:

- Assume expanded authority.
- Consult with SPI*, LEA* Board to develop and adopt a fiscal plan and budget allowing district to meet its financial obligations.
- Consider current fiscal year and multi-year financial commitments.
- Cancel POs, prohibit nonsalary warrants, stay or rescind any LEA action that is inconsistent with the newly adopted budget. The county superintendent shall inform the governing board in writing of the justification for his/her authority under this section.
- Monitor and review the operation of the district.
- May employ short term analytical assistance.
- Require all contracts and other obligations be encumbered, to prepare cash flow analyses and monthly or quarterly budget revisions.
- LEA Board shall govern the district in accordance with the newly adopted budget.

Approved Imposed Budget

Every school district will have an adopted and approved or imposed budget by November 30.

Pending budget approval, E.C. 42127.4 requires the LEA to continue to operate on the lowest total spending authority of either:

- Last budget adopted or revised by the governing board for prior fiscal year. (or)
- The unapproved budget for the current fiscal year, as adopted and revised by the governing board of the school district.

* County superintendent cannot abrogate any prior collective bargaining provisions {E.C. 42127.3 (e)}.

* LEA shall pay 75 percent and the COE 25 percent {E.C. 42127.3 (d)}.

——— Approval path

═══ Disapproval path

Going Concern

The term "going concern," when applied to an agency, business or organization, means that the entity is fiscally healthy and able to meet its financial obligations. An organization is not a going concern when its fiscal health is suspect or it is deemed to have risk of insolvency. This latter circumstance would be considered "not a going concern" or "lack of a going concern." The AB 1200 section of the Education Code does not use the term "going concern." However, E.C. 42127.6 has often been referred to as the "going concern" section. The term "going concern" does appear in the State Controller's K-12 Audit Guide under "other issues." The guide's statement on auditing standards (SAS) No. 59 states, "The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern addresses the auditor's responsibilities and considerations when questions arise concerning an organization's ability to meet its obligations as they become due without substantial disposal of assets, restructuring of debt, externally forced revision of its operation, or similar actions. The ability to meet payment obligations as they become due is the key concept that causes SAS No. 59 to be directly applicable to government entities, including LEAs. "

There are basically five (5) ways an auditor can express an opinion on financial statements.

Although it is possible to mix different kinds of opinions in an auditor's report, there are basically five (5) ways an auditor can express an opinion on financial statements:

- *unqualified opinion* — this is the standard report, or "clean" opinion and may be issued when generally accepted accounting and auditing standards are conformed to, and no further explanations are needed.
- *unqualified opinion with explanatory language* — this is a standard report which adds an explanation about such things as a change in accounting practices, the presence of additional auditors, emphasis of a matter, or in some cases, an uncertainty about the company as a going concern based on negative cash flows, a risk problem, labor problems, or legal proceedings that are pending.
- *qualified opinion* — this means that the financial statements are presented fairly in conformity with generally accepted accounting principles "except for" the effects of some matter, and those effects, while material, do not overshadow the overall fairness of the reports.
- *adverse opinion* — this means that the financial statements are NOT presented fairly in conformity with generally accepted accounting principles, and that the deficiencies are so significant that the financial statements are misleading.
- *disclaimer of opinion* — this means that due to some scope limitation on the auditor, perhaps because of management interference, no opinion was formulated or the auditor was unable to form an opinion.

Education Code Section 42127.6 was recently amended to include the provisions of AB 2756. These provisions include the following:

I. A district shall, pursuant to E.C. Section 42127.6, provide the county superintendent of schools with a copy of any study, report, evaluation, or audit that contains evidence that the school district is showing fiscal distress under the standards and criteria adopted in Section 33127, or a report on the district by FCMAT or any regional team created pursuant to subdivision (i) of Section 42127.8.

II. The county superintendent of schools shall review and consider these studies, reports, evaluations or audits that contain evidence that the district is demonstrating fiscal distress under the standards and criteria, or that contain a finding by an external reviewer that more than three of the 15 most common predictors of a school district needing intervention, as determined by the County Office Fiscal Crisis and Management Assistance Team, are present.

III. The county superintendent of schools shall investigate the financial condition of the school district and determine if the school district may be unable to meet its financial obligations for the current or two subsequent fiscal years, or should receive a qualified or negative interim financial certification pursuant to E.C. Section 42131.

   1. If at any time during the fiscal year the county superintendent of schools determines that a school district may be unable to meet its financial obligations for the current or two subsequent fiscal years, or if the district has a qualified or negative certification, the county superintendent shall notify the governing board and the SPI in writing of that determination and the reasons for the determination. The notification shall include the assumptions used and shall be available to the public. The county superintendent shall report to the SPI on the financial condition of the district and proposed remedial actions. The county superintendent shall adhere to E.C. 42127.6 in assisting the school district by doing at least one of the following (This is a paraphrased narrative of the code section. Please refer to E.C. 42127.6 for a complete listing):

      (A) Assign a fiscal expert, paid for by the county superintendent, to advise the district on its financial problems.

      (B) Conduct a study of the financial and budgetary conditions of the district. If expertise is needed for the study, the county office of education may hire staff with the approval of the SPI. The school district shall pay 75 percent and the county office of education shall pay 25 percent of those staff costs. County offices of education are eligible to request their 25 percent costs through a FCMAT reimbursement with the approval of the CDE and DOF.

(C) Direct the school district to submit a financial projection of all fund and cash balances of the district for the current and subsequent fiscal years.

(D) Require the district to encumber all contracts and other obligations, to prepare appropriate cash flow analyses and budget revisions, and to record all receivables and payables.

(E) Direct the district to submit a proposal for addressing its fiscal condition.

(F) Withhold compensation of the members of the governing board and district superintendent for failure to provide requested financial information. This action may be appealed to the SPI.

(G) Assign FCMAT to review teacher hiring practices, teacher retention rate, percentage of provision of highly qualified teachers and the extent of teacher misassignment in the school district. If a review team is assigned, the district shall follow the recommendations of the team.

Any contract entered into by the county superintendent of schools for the purposes of this subdivision is subject to the approval of the SPI.

2. If, after taking any or all of the actions cited in E.C. 42127.6 (A through G), the county superintendent determines that a district will be unable to meet its financial obligations for the current or subsequent fiscal year, the county superintendent shall notify the governing board and SPI in writing. The notification shall include the county superintendent's assumptions in making the determination and shall be provided to the superintendent of the school district and the parent and teacher organization of the district. Within five days of the determination, an appeal may be made to the SPI by the district. Within 10 days of the appeal, the SPI shall sustain or deny any or all parts of the appeal. During the appeal process, the county superintendent may stay any action of the governing board that is inconsistent with the district's ability to meet its financial obligations in the current or subsequent fiscal year [E.C. 42127.6 (c) (d)].

3. If the appeal is denied or not filed, or if the district has a negative certification, the county superintendent, in consultation with the SPI, shall take at least one of the actions described in paragraphs (A) to (E), and all actions that are necessary to ensure that the district meets its

financial obligations. These actions include the following (refer to E.C. 42127.6 (e) for a complete listing):

(A) Develop and impose, in consultation with the SPI and the governing board, a budget revision.

(B) Stay or rescind any action that is determined to be inconsistent with the school district's ability to meet its obligations for the current or subsequent fiscal year.

(C) Assist in developing, in consultation with the governing board of the school district, a financial plan that will enable the district to meet its future obligations.

(D) Assist in developing, in consultation with the governing board of the school district, a budget for the subsequent fiscal year.

(E) As necessary, appoint a fiscal advisor to perform any or all of the duties required of the county superintendent under this section.

4. No later than five days after receipt of the notice that the county superintendent of schools is proposing changes to the district's budget pursuant to E.C. 42127.6(e), the district may appeal the change to the SPI on the basis of impact to programs, requirement of unnecessary reductions or conflict with state and federal law. The SPI has five days to deny or uphold the appeal [E.C. 42127.9].

5. Any action taken by the county superintendent of schools under this subdivision shall be accompanied by a notification that shall include the actions to be taken, the reasons for the actions, and the assumptions used to support the necessity for these actions.

6. The school district shall pay 75 percent and the county office of education shall pay 25 percent of the administrative expenses incurred pursuant to E.C. Section 42127.6 (e) or costs associated with improving the district's financial management practices. County offices of education are eligible to request their 25 percent costs through a FCMAT reimbursement with the approval of the CDE and DOF.

IV. This section does not authorize the county superintendent to abrogate any provisions of a collective bargaining agreement that was entered into by a school district prior to the date upon which the county superintendent of schools assumed authority [E.C. 42127.6 (g)].

GOING CONCERN

Education Code Section 42127.6

If at any time during the fiscal year the County Superintendent of Schools determines that the school district may be unable to meet its financial obligation in current or two subsequent fiscal years, the County Superintendent shall notify the district governing board and SPI in writing {E.C. 42127.6 (a)}.

The written notice shall include the basis for the determination, and assumptions used in this notice shall be made available to the public {E.C. 42127.6 (a)}.

The county superintendent shall do any or all of the following: E.C. 42127.6 (a)(1) (A)(B)(C)(D)(E)(F)(G). These code sections apply to a qualified certification as well.

LEA Appeal

E.C. 42127.6 (b)(d)(e)

Within five days of the county superintendent making the determination, a school district may appeal to the SPI. The SPI shall sustain or deny any or all part of the appeal within 10 days.

If the county superintendent determines that the LEA will be unable to meet financial obligations: for the current or subsequent fiscal year:

- COE notifies SPI and district board in writing.
- In consultation with SPI & LEA, COE shall take at least one action described in paragraphs 1 to 5.
  1. Develop & impose revisions to budget.
  2. Stay and rescind action inconsistent with revisions.
  3. E.C. 42127.6 (e)(3)
  4. E.C. 42127.6 (e)(4)
  5. E.C. 42127.6 (e)(5)

LEA Appeal

E.C. 42127.9

Within five days of receipt of notice that the county superintendent is proposing changes to the district's budget, a school district may appeal to the SPI. The SPI shall deny or uphold the appeal within five days.

This section does not authorize the county superintendent to abrogate any prior provision of a collective bargaining agreement {E.C. 42127.6 (g)}.

The school district shall pay 75% and the COE shall pay 25% of the administrative expenses or costs associated with improving the district's financial management practices.

Approval path

Disapproval path

Interim Reports

Districts shall submit two reports to the governing board during each fiscal year. The first report (first interim), shall cover the financial and budgetary status of the district for the period ending October 31. The second report (second interim) shall cover the period ending January 31. Both reports shall be approved by the district board no later than 45 days after the close of the report period (approximately December 15 and March 15, 16 or 17) [E.C. 42130]. All reports shall be in a format or on forms prescribed by the SPI and shall be based on standards and criteria for fiscal stability.

Districts shall submit two reports to the governing board during each fiscal year.

If the board of any district neglects to file an interim report, the county superintendent of schools shall not make any apportionment of state or county school money to the school district or approve any warrant issued by the school district [E.C. 42128].

I. School districts shall certify in writing (within 45 days after the close of the period being reported) whether or not the district is able to meet its financial obligations for the remainder of the fiscal year and, based on current forecasts, for the subsequent fiscal year. A positive certification shall be assigned to any school district that, based upon current projections, will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A qualified certification will be assigned to any district that may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. A negative certification will be assigned to any district that will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year [E.C. 42131].

II. If a county office of education receives a positive certification when it determines a negative or qualified certification should have been filed, the county superintendent shall change the certification to negative or qualified, as appropriate and shall so notify the governing board and the SPI within 75 days after the close of the period being reported [E.C. 42131 (a) (2)].

   A. No later than five days after receipt of the notice of a change to negative or qualified, the governing board of the school district may submit an appeal to the Superintendent of Public Instruction [E.C. 42131 (a) (2)].

   B. The Superintendent of Public Instruction shall determine the certification to be assigned to the district no later than 10 days after receiving the appeal and notify the school board and county superintendent of schools [E.C. 42131 (a) (2)].

C. As to any school district having a negative or qualified certification, the county superintendent of schools shall exercise authority pursuant to E.C. Section 42127.6.

D. Within 75 days of the close of a reporting period, all certifications classified as qualified or negative shall be transmitted by the county superintendent to the SPI and state controller, along with the county superintendent's comments and report of actions proposed or taken [E.C. 42131 (a) (2)].

E. Within 75 days after the close of each reporting period, each county superintendent shall report to the state controller and the state SPI as to whether each school district under the county's jurisdiction has submitted the certification required [E.C. 42131 (c)].

F. The controller's office may conduct an audit or review of the fiscal condition of any district having a negative or qualified certification [E.C. 42131 (d)].

III. Pursuant to Government Code Section 3540.2, a school district that has a qualified or negative certification under this section shall allow the county superintendent of schools at least 10 working days to review and comment on any proposed agreement made between the exclusive representative and the public school employer, or designated representatives of the employer.

A. The school district shall provide the county superintendent of schools with all information relevant to yield an understanding of the financial impact of that agreement.

B. The county superintendent of schools shall notify the school district, the county board of education, the district superintendent, the governing board of the district, and each parent and teacher organization of the district within those 10 days if the agreement reviewed would endanger the fiscal well-being of the school district.

C. A school district shall, upon request, provide the county superintendent of schools with all information relevant to understanding the financial impact of any final collective bargaining agreement reached pursuant to Government Code Section 3543.2.

D. Pursuant to Government Code Section 3547.5, before a public school employer enters into a written agreement with an exclusive representative covering matters within the scope of representation, the major provisions of the agreement, including the costs that would be incurred by the district for the current and subsequent fiscal years, shall be disclosed at a public meeting.

E. The superintendent of the school district and chief business official shall certify in writing that the costs incurred under the agreement can be met by the district during the term of the agreement and must itemize any budget revisions necessary to meet the costs of the agreement in each year of its term.

F. If a school district does not adopt all of the revisions to its budget needed in the current fiscal year to meet the costs of a collective bargaining agreement, the county superintendent of schools shall issue a qualified or negative certification for the district on the next interim report, pursuant to G.C. Section 3547.5(c).

IV. Whenever a district has a qualified or negative certification, the county superintendent of schools may do one or more of the following:

A. Exercise authority granted in E.C. Sections 42127.6 [E.C. 42131 (b)].

V. If the second interim report transmitted by a school district each fiscal year is qualified or negative, the governing board of that school district shall provide the county superintendent, the SPI and the Controller with a financial statement no later than June 1, of that fiscal year, that projects the district's fund and cash balances through June 30 for the period ending April 30 [E.C. 42131 (e)]. This report is sometimes referred to as the "third interim report." The Education Code is silent on the issue of whether a COE can change a district's second interim certification based on the data in the required financial statement. A district is not required to self-certify to a "positive," "qualified," or "negative" certification when submitting their June 1 financial statement.

VI. A school district that has a qualified or negative certification in any fiscal year may not issue, in that year or in the next fiscal year, certificates of participation, tax anticipation notes, revenue bonds, or any other debt instruments that do not require the approval of the voters of the district, unless the county superintendent of schools determines that the district's repayment of that indebtedness is probable [E.C. 42133]. California Department of Education (CDE) Management Advisory 92-04 addresses issues the county office of education must review relative to E.C. 42133. CDE Management Advisory 92-04 is included in the appendix of this publication.

VII. The SPI or the county superintendent of schools can revoke/suspend its approval of a district drawing warrants on the County Treasury if the district has a qualified or negative interim report certification [E.C. 42652].

INTERIM REPORTS

Education Code Section 42131

POSITIVE
(Current and two subsequent fiscal years)

Process ends

If County Office receives a positive certification when a qualified or negative should have been filed, the County Superintendent shall
- Change the certification to qualified or negative as appropriate.
- Notify the governing board and the SPI no later than 75 days after the close of the period {E.C. 42131 (a)(2)}.

No later than 5 days from notification, district may appeal to SPI {E.C. 42131 (a)(2)}.

No later than 10 days after the receipt of district appeal, the SPI shall determine the certification assigned to the district {E.C. 42131 (a)(2)}.

COE shall notify SPI and Controller of comments on certifications {E.C. 42131 (a)(2)}.

QUALIFIED
(Current and/or two subsequent fiscal years)

County Office of Education transmits copy of certification to Controller and SPI {E.C. 42131 (a)(2)}.

County Superintendent
- Shall submit to the Controller and SPI comments within 75 days {E.C. 42131 (a)(2)}.
- Shall exercise authority granted in E.C. 42127.6.
- May exercise authority granted in Section 42637 and 42652.
- Controller may conduct an audit or review the fiscal condition {E.C. 42131 (d)}.

Second interim report is Positive

Process ends

Second interim report is Qualified

- School district shall provide to the county superintendent, the controller and the SPI, no later than June 1, financial statement projections of the fund and cash balances of the district through June 30, for the period ending April 30.
- Direct district to submit a proposal to County Superintendent addressing conditions {E.C. 42127.6 (a)(1)(E) and 42637}.

NEGATIVE
(Current or subsequent fiscal year)

County Office of Education transmits copy of certification to Controller and SPI {E.C. 42131 (a)(2)}.

The SPI, in cooperation with the controller, shall
- Review the certification with the County Superintendent's comments and actions proposed or taken.
- Conduct an on-site review, direct the County Superintendent to exercise the authority granted in Sections 42127.6 and 42637.

County Superintendent
- Shall submit to the controller and SPI comments within 75 days {E.C.42131 (a)(2)}.
- Shall exercise authority granted in Section 42637.
- May, in consultation with SPI, do any and all of E.C. 42127.6 (e).
- Controller may conduct an audit or review the fiscal Condition {E.C. 42131 (d)}.

Second interim report is Positive

Process ends

Second interim report is Qualified/Negative

- School district shall provide to the County Superintendent, the controller and the SPI, no later than June 1, financial statement projections of the fund and cash balances of the district through June 30, for the period ending April 30.
- Direct district to submit a proposal to County Superintendent addressing conditions {E.C. 42127.6 (a)(1)(E) and 42637}.

Approval path

Disapproval path

Response and Appeal Procedures

This section is intended to provide a summary of the response and appeal procedures related to various aspects of the budget approval and interim reporting process. For more information, code references and time lines related to a specific area, refer to those sections contained in this guide.

I. No later than five days after the district receives notice of change(s) in the district's budget to be imposed pursuant to E.C. 42127.3 (b), 42127.6 (e) and 42131 (b), the LEA board may respond or appeal. Each of the above referenced Code Sections allows the LEA five days to respond or appeal:

   A. The district governing board may submit an appeal and a response to the State Superintendent of Public Instruction, including any revisions to the adopted final budget and any proposed actions to be taken by the district as a result of the BRC [E.C. 42127.3(b)].

   B. The district governing board may submit an appeal to the SPI [E.C. 42127.9 (a)], based on the contention that the change(s) would do one or more of the following:

      1. Exceed the financial and program changes that are necessary.

      2. Require reductions that are unnecessary.

      3. Force changes that are inconsistent with state or federal law.

II. No later than five days after receiving the LEA appeal, the State Superintendent of Public Instruction shall deny or uphold the appeal [E.C. 42127.9 (b)].

   A. If the appeal is upheld, the State Superintendent may revise changes adopted by the county office or offer guidelines to the LEA and COE on changing the budget [E.C. 42127.9(b)].

   B. If the appeal is denied, the LEA shall implement changes adopted by the county superintendent of schools [E.C. 42127.9 (b)].

Changes In School District Budget

APPEAL PROCEDURES

Education Code 42127.9

LEA Appeal {E.C. 42127.9}

- No later than five days after the LEA receives notice of changes to budget pursuant to E.C. 42127.3 (b), 42127.6 (e and 42131 (b), LEA Board may submit appeal to SPI, based on the premise that changes would:
  1. Exceed financial or program changes necessary.
  2. Require reductions that are unnecessary.
  3. Be inconsistent with State and Federal law.
- No later than five working days after receiving LEA appeal, SPI shall deny or uphold the appeal.

Appeal Upheld
E.C. 42127.9 (b)

SPI may revise the changes adopted by the county superintendent or issue guidelines governing how the LEA or county superintendent are required to change the budget.

Denied
E.C. 42127.9 (b)

- LEA shall implement the changes adopted by the county superintendent.

Approval path
Disapproval path

Charter School Oversight by Chartering Authority

Charter schools in California are a unique part of the public education system. While the Charter School Act exempts charter schools from many of the Education Code provisions that pertain uniquely to school districts, other laws that govern public entities apply equally to them—most notably, federal statutes. Greater definition of specific charter school functions are defined in the petition utilized to create them and generally in a Memorandum of Understanding (MOU) that is cooperatively developed with their authorizing entity. As such, the general attributes of AB 1200 do not apply to charter schools. Fiscal oversight of charter schools is primarily the responsibility of the authorizing entity as described below. Failure to fulfill oversight responsibilities can subject a school districts, or other authorizer, to legal liability for the charter school's acts, errors or omissions.

The chartering authority shall use any financial information it obtains from the charter school to assess the fiscal condition of the charter school.

I. Each charter school shall annually prepare and submit the following reports to its chartering authority and the county superintendent of schools, or only to the county superintendent of schools if the county board of education is the chartering agency [E.C. Section 47604.33(a)].

   A. On or before July 1, a preliminary budget.

   B. On or before December 15, an interim financial report. This report shall reflect changes through October 31.

   C. On or before March 15, a second interim financial report. This report shall reflect changes through January 31.

   D. On or before September 15, a final unaudited report for the full prior year [E.C. 42100(b)].

   A charter school shall transmit a copy of its annual, independent financial audit report for the preceding fiscal year to the County Office of Education, State Controller and the State Department of Education by December 15 of each year [E.C. 47605.6(b)(5)(I), E.C. 47605.6(m)].

   The chartering authority shall use any financial information it obtains from the charter school to assess the fiscal condition of the charter school pursuant to subdivision (d) of Education Code Section 47604.32 [E.C. 47604.33(b)].

   The cost of performing the duties required by the above section shall be funded with supervisorial oversight fees collected under Education Code Section 47613 [E.C. 47604.33(c)].

II. A charter school shall respond promptly to all reasonable inquiries, including but not limited to inquiries regarding its financial records, from its chartering authority, from the county office of education that has jurisdiction over the school's chartering authority, and from the SPI [E.C. 47604.3].

III. Each chartering authority shall, in addition to any other duties imposed, do all of the following with respect to each charter school under its authority: [E.C. 47604.32]

   A. Identify at least one staff member as a contact person for the charter school.

   B. Visit each charter school at least annually.

   C. Ensure that each charter school under its authority complies with all reports required of charter schools by law.

   D. Monitor the fiscal condition of each charter school under its authority.

   E. Provide timely notification to the state department if any of the following circumstances occur or will occur with regard to a charter school for which it is the chartering authority:

      1. A renewal of the charter is granted or denied.

      2. The charter is revoked.

      3. The charter school will cease operation for any reason.

IV. A charter school shall notify the county superintendent of schools of the county in which it is located of the location of the charter school, and the location of each site, prior to commencing operations [E.C. 47604.4(a)].

   A county superintendent of schools may, based upon written complaints by parents or other information that justifies the investigation, monitor the operations of a charter school located within that county and conduct an investigation into the operation of that charter school [E.C. 47604.4(a)].

V. At any time during a fiscal year, a county superintendent may review or audit the expenditures and internal controls of any charter school in his or her county if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. The county superintendent shall, within 45 days of completing the review, audit or examination, report the findings and recommendations to the governing board of the charter school at a regularly scheduled meeting, and provide a copy of the information to the chartering authority of the charter school. The charter school shall, no later than 15 calendar days after receipt of the report, notify the county superintendent and its chartering authority of its proposed response to the recommendations [E.C. 1241.5 (c)].

VI. A county superintendent of schools may ask the Fiscal Crisis and Management Assistance Team (FCMAT) to review the fiscal or administrative condition of a school district or charter school under his or her jurisdiction [E.C. 42127.8 (c) (2)].

Public Disclosure Responsibilities

Collective Bargaining

Statute requires that the public is made aware of the costs associated with a tentative collective bargaining agreement before it becomes binding on the district or county office of education. Government Code Section 3547.5 states:

> Before a public school employer enters into a written agreement with an exclusive representative covering matters within the scope of representation, the major provisions of the agreement, including, but not limited to, the costs that would be incurred by the public school employer under the agreement for the current and subsequent fiscal year, shall be disclosed at a public meeting of the public school employer in a format established for this purpose by the Superintendent of Public Instruction [G.C. 3547.5(a)].

Statute requires that the public is made aware of the costs associated with a tentative collective bargaining agreement before it becomes binding on the district or county office of education.

The superintendent of the school district and chief business official shall certify in writing that the costs incurred by the school district under the agreement can be met by the district during the term of the agreement. This certification shall itemize any budget revision necessary to meet the costs of the agreement in each year of its term [Gov. Code 3547.5 (b)].

If a school district does not adopt all of the revisions to its budget needed in the current fiscal year to meet the costs of a collective bargaining agreement, the county superintendent of schools shall issue a qualified or negative certification for the district on the next interim report pursuant to Section 42131 of the Education Code [Gov. Code 3547.5 (c)].

A school district shall provide the county superintendent of schools, upon request, with all information relevant to provide the understanding of the financial impact of any final collective bargaining agreement reached pursuant to G.C. Section 3543.2 [G.C. 3540.2(d)].

In 1992, the SPI issued Management Advisory 92-01, which provides procedures for LEAs to use in complying with the provisions of Government Code Section 3547.5. AB 3141 (1994) provided additional clarification and procedures related to the collective bargaining disclosures. The SPI issued Management Advisory 95-03 to LEAs to further clarify these procedures.

Education Code Section 42142 states:

> Within 45 days of adopting a collective bargaining agreement, school district superintendents must send the county superintendent any revisions to the

district's current year budget that are necessary to fulfill the terms of that agreement. Any additional costs to the school district that may result from the terms of the agreement also shall be reflected in any interim fiscal reports or multi-year fiscal projections.

Essentially, any budget revisions reflecting the impact of the collective bargaining agreements must be forwarded to the county superintendent within 45 days of board adoption of the contract settlement.

Districts with Qualified or Negative Certifications

Government Code Section 3540.2 provides added oversight related to the collective bargaining process. Any school district with a qualified or negative certification under Education Code Section 42131 shall allow the county office of education at least ten working days to review and comment on any proposed agreement made between the exclusive representative and the public school employer, or designated representative and the public school employer, or designated representatives, before it is ratified. The school district shall provide the county office with all information relevant to yield an understanding of the financial impact of that agreement. The county superintendent shall notify the school district, county board of education, district superintendent, governing board of the school district, and each parent and teacher organization of the district within those 10 days if, in his or her opinion, the agreement would endanger the fiscal well-being of the school district.

A school district shall, upon request, provide the county superintendent of schools with all information relevant to provide an understanding of the financial impact of any final collective bargaining agreement reached [Gov. Code 3540.2 (d)].

Non Voter-Approved Debt

Education Code Section 17150 requires, in part, the following:

- Upon the approval by a school district board to proceed with the issuance of certificates of participation (COP) revenue bonds, or to enter into any agreement for financing school construction pursuant to E.C. Section 17170, the school district shall notify the county superintendent and the county auditor.
- The district superintendent shall provide the repayment schedules for that debt obligation, and evidence of the ability of the school district to repay that obligation to the county auditor, the county superintendent, the governing board, and the public.
- Within 15 days of the receipt of the information, the county superintendent of schools and the county auditor may comment publicly to the governing board of the school district regarding the capability of the school district to repay that debt obligation [E.C. 17150 (a)].

- Within 15 days of the receipt of the information, the SPI may comment publicly to the county board of education regarding the capability of the county office of education or school district (county board serves as governing board) to repay that debt obligation [E.C. 17150 (b)].
- A school district that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or the next succeeding fiscal year, non-voter approved debt unless the county superintendent of schools determines that the district's repayment of that debt is probable [E.C. 42133].

Requirement to Accrue Full Liability for Post-employment Health Benefits

School districts and county offices of education will be required by the Governmental Accounting Standards Board (GASB) to disclose the financial obligations regarding their offering of other post-employment benefits (OPEBs), including medical, dental, vision, hearing, prescription drugs, long-term care, long-term disability, death benefits, and life insurance.

School districts and county offices of education will be required by GASB to disclose the financial obligations regarding their offering of other post-employment benefits.

GASB was established in 1984 and has responsibility for establishing and improving accounting and financial reporting standards for state and local governments. GASB addresses this responsibility in part through the issuance of GASB Statements. In June 2004, GASB issued two related statements in statements 43 and 45. Statement 45 applies to any employer that pays all or part of the cost of an OPEB plan (other than pension benefits). Statement 43 applies to a trustee or administrator of an OPEB plan. The two new standards are phased in over a three-year period, based on the governmental unit's size.

The focus of this guide is on GASB 45. This new standard will have a significant impact on how districts deal with the financial aspects of the post-retirement health benefits program and the district's ending fund balance. The new standard will require school districts to record the liability for post-retirement health benefits when they are earned rather than as a cash outlay after retirement (known as a "pay as you go" method).

Districts should begin to evaluate the impact of this new requirement on their financial statements in order to take the necessary steps to address the impact.

For a more complete understanding of GASB statements 43 and 45, refer to the *GASB Statements 43 and 45* and *Using the Actuarial Study*, sponsored by the Region IV Regional Team and FCMAT.

Effective Dates/Financial Statements

Implementation of this new standard will take place in three phases: 2006-07, 2007-08, and 2008-09. The amount of the accrual needs to be reported in the financial statements of all public sector employers. The largest employers must begin reporting during the first financial period after December 15, 2006. Small employers have until 2008 to begin reporting. It is important that LEAs determine their liabilities prior to the effective date.

GASB Statement 45 requires the following:

- Actuarial studies to measure the amount of the post-employment benefit liability.
- Accounting for the post-employment benefit liability.
- Disclosure, in the annual audit report, of the liability, the funding progress and the funded status.
- The statement does not address funding methodologies or require funding the post-employment benefit liability.

Actuarial Evaluation

Education Code Section 17566(e) requires that districts which are self-insured/funded for health and welfare benefits must have an actuary evaluate the annual cost of those benefits every three years. A copy must be filed with the county superintendent.

Fiscal Oversight Considerations

- The state criteria and standards, as revised in September 2005, require all school districts to estimate at budget adoption all unfunded post-employment benefits as well as the unfunded portion of any self-insured benefits program. Changes to these unfunded liabilities are disclosed at interim reporting periods. In addition, districts disclose all long-term commitments and identify their funding streams (See appendix: BASC Working Group GASB 45 document - October 16, 2005).
- AB 2756 (Chapter 52/Statutes 2004) requires all school districts to provide copies of any reports "showing fiscal distress" to the county superintendent of schools. The Business Administration Steering Committee (BASC) of the California County Superintendents Educational Services Association (CCSESA) concludes that any actuarial report showing an unfunded liability would be included in this definition (BASC October 16, 2005 document).
- FCMAT predictors of fiscal intervention identify substantial long-term obligations as one of the 11 most common conditions of school agencies needing intervention (BASC October 16, 2005 document).

Workers' Compensation Claims

Education Code Section 42141 requires, in part, the following:

- If a district or county office of education is self-insured for workers' compensation claims, the superintendent(s) shall annually provide information to the governing board(s) as appropriate, regarding the estimated accrued but unfunded cost of those claims.
- The estimated costs shall be based on an actuarial report completed at least every three years.
- The actuarial report shall be performed by an actuary who is a member of the American Academy of Actuaries.
- The cost information and a copy of the actuarial report shall be presented at a public meeting of the board.
- At that meeting, the governing board shall disclose, as a separate agenda item, whether or not it will reserve a sufficient amount of money in its budget to fund the present value of the accrued but unpaid claims or decrease the amount of its workers' compensation reserve fund.
- The governing board annually shall certify to the county superintendent of schools the amount of money, if any, that it has decided to reserve in its budget for the cost of those claims and shall submit any budget revisions that may be necessary. This is certified by school districts and county offices on the SACS Budget Workers' Compensation certification page.

Requirement for Annual Audit

I. Not later than the first day of May of each fiscal year, each county superintendent of schools shall provide for an audit of all funds under his or her jurisdiction and control [E.C. 41020 (b) (1)].

II. A contract to perform the audit of a LEA that has a disapproved budget or a negative certification on any budget or interim report during the current fiscal year or either of the two preceding fiscal years, or for which a county superintendent of schools determined that a lack of going concern exists, is not valid unless approved by the county superintendent of schools and the district governing board [E.C. 41020(b)(2)].

III. If the governing board of an LEA has not provided for an audit, by April 1, the county superintendent of schools shall provide for the audit of each LEA at the district's cost [E.C. 41020(b)(3)].

Not later than the first day of May of each fiscal year, each county superintendent of schools shall provide for an audit of all funds under his or her jurisdiction and control.

IV. Not later than December 15, a report of each LEA audit for the preceding fiscal year shall be filed with the county superintendent of schools, the CDE and the Office of the State Controller [E.C. 41020 (h)].

V. By January 31, the governing board of each school district shall review at a public meeting the annual audit; any audit exceptions, recommendations or findings issued by the auditor; and any description or plans of correction of exception or management letter issued [E.C. 41020.3].

VI. Each county superintendent of schools shall be responsible for reviewing the audit exceptions in the annual LEA audit report related to the following: [E.C. 41020]

a. Attendance (e.g., revenue limits, adult education, independent study).

b. Inventory of equipment.

c. Internal control.

d. Instructional materials program funds.

e. Teacher misassignment [E.C. 44258.9].

f. School accountability report card [E.C. 33126].

g. Miscellaneous items.

VII. The county superintendent is responsible for determining that the exceptions have either been corrected or an acceptable plan of correction has been developed [E.C. 41020 (i) (1)].

VIII. If a description of the correction or the plan of correction has not been provided as part of the audit, the county superintendent of schools shall notify the LEA and request the governing board of the LEA to provide this information by March 15 [E.C. 41020(j)(2)].

IX. Each county superintendent of schools will certify to the SPI and the controller by May 15 that the county staff have reviewed the audits and the audit exceptions, and that all exceptions that the county superintendent was required to review were reviewed, and that all of those exceptions, except as noted in the certification, have been corrected or the district has submitted an acceptable correction plan [E.C. 41020 (k)].

X. The county superintendent of schools shall identify, by LEA, any attendance-related audit exception or exceptions involving state funds, and require the LEA to submit appropriate reporting forms to the SPI [E.C. 41020 (k)].

XI. The county superintendent of schools shall adjust future local property tax requirements to correct audit exceptions relating to school district tax rates and tax revenues [E.C. 41020 (o)].

XII. If an annual audit report is not filed with the county superintendent on or before December 15, the county superintendent may investigate the cause or the delay and initiate action to obtain the annual audit report in the most effective manner. These actions include: [E.C.41020.2 (a) (1) (2) (3)]

- Granting an extension with the consent of the SPI and SCO.
- Contracting with another audit firm to complete the work.
- Requesting the controller's office to investigate and initiate action.

XVI. If the county superintendent has determined that the district may not be able to meet its obligations for the current or subsequent fiscal year, the district's auditor shall, upon request, provide the county superintendent or SPI with fiscal information on that school district. This shall not constitute a violation of auditor-client confidentiality [E.C. 41020.8].

General County Superintendent Fiscal Oversight Responsibility

The county superintendent shall maintain responsibility for the fiscal oversight of each school district in his or her county.

I. The county superintendent shall maintain responsibility for the fiscal oversight of each school district in his or her county [E.C. 1240 (b)].

II. The county superintendent shall annually present a report to the governing board of the school district and the SPI regarding the fiscal solvency of any school district with a disapproved budget, qualified interim certification, or negative interim certification, or that is determined at any time to be in a position of fiscal uncertainty pursuant to E.C. 42127.6 [E.C. 1240(e)].

III. The county superintendent is not responsible for the fiscal oversight of the community colleges in the county; however, he or she may perform financial services on behalf of those community colleges [E.C. 1240 (l) (4)].

IV. On or before September 15, the governing board of each district must approve, on a form prescribed by the SPI, a statement of all receipts and expenditures of the district for the preceding fiscal year, and shall file the statement (along with any charter school statements if the authorizing entity) with the county superintendent of schools. On or before October 15, the county superintendent of schools shall verify the mathematical accuracy of the statements and shall transmit a copy to the SPI [E.C. 42100 (a)].

V. At any time during a fiscal year, the county superintendent may audit the expenditures and internal controls of fiscally accountable school districts, and shall conduct this audit in a timely and efficient manner. The county superintendent shall report the findings and recommendations to the governing board of the district within 45 days of completing the audit [E.C. 1241.5 (a)].

VI. At any time during a fiscal year, the county superintendent may review or audit the expenditures and internal controls of any school district in his or her county if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. The county superintendent shall report the findings and recommendations to the governing board of the school district at a regularly scheduled school district board meeting within 45 days of completing the review, audit, or examination [E.C. 1241.5 (b)].

VII. The governing board of the district shall, no later than 15 calendar days after receipt of the report, notify the county superintendent of its proposed actions.

Upon review of the board's report, the county superintendent may disapprove an order for payment of funds consistent with E.C. 42638 [E.C. 1241.5 (b)].

VIII. If the county superintendent determines that there is evidence that fraud or misappropriation of funds has occurred, the county superintendent shall notify the governing board of the school district, the state controller, the SPI, and the local district attorney [E.C. 42638(b)].

Sample Letters
(Budget, Interim Reports, Extraordinary Audits)

A Responses to Budget Adoption

A1 Non-Approval of First Budget for Dual Budget District

A2 Budget Disapproval

A3 Budget Approval with Implementation of Budget Reductions and Fiscal Stabilization Plan

B Responses to First Interim

B1 Concurrence with Positive Certification with Implementation of Budget Reductions and Fiscal Stabilization Plan

B2 Concurrence with Self-Qualified Certification

C Responses to Second Interim

C1 Concurrence with Positive Certification with Implementation of Budget Reductions and Fiscal Stabilization Plan

C2 Change of Certification from Positive to Qualified

D Responses to Collective Bargaining Agreement Disclosure

D1 With County Office of Education Concerns

D2 With No County Office of Education Concerns

E AB 139 Annual Report

A1: Sample Letter: budget; non-approval of first budget for dual budget district

Date

___________, Board President
________________ School District
Address
City, State and Zip

Dear ___________:

In accordance with the provisions of Education Code (E.C.) Section 42127, a review of the ____________________ School District's (District) adopted budget for fiscal year 2005-06 has been completed by the ____________________ County Superintendent of Schools (County Superintendent). Based on our review, we have noted that the District is reflecting multiyear projections that include $61 million of non-specific and non-Board-approved expenditure reductions for both 2006-07 and 2007-08. When the District's multiyear projections are adjusted downward for the $61 million currently reflected in 2006-07 and 2007-08, the District's reserves fall to 0.08 percent in 2006-07 and negative 0.77 percent in 2007-08. We also note that the District's Workers' Compensation Fund reflects negative ending balances for both 2004-05 and 2005-06.

Because of the uncertainty of these budget proposals, it appears that the District may not be able to meet all of its financial obligations for 2006-07 and 2007-08 without the implementation of 1) a revised Board-approved fiscal recovery and stabilization plan that includes specific budget adjustments for restoring the minimum required reserve levels in 2006-07 and 2007-08 and 2) a detailed plan for resolving the potential insolvency of the Workers' Compensation Fund.

In order for the County Superintendent to approve the District's revised final budget, due to the ________________ County Office of Education (County Office) by September 8, 2005, the concerns noted below and their related recommendations for revisions must be addressed with the submission of the District's revised final budget for 2005-06.

Fiscal Recovery Plan

Our previous letters to the Governing Board, dated April 7, 2005 and June 28, 2005, required the District to submit an update of its fiscal recovery and stabilization plan, along with the July 1 adopted budget, to identify ways for resolving the recurring structural problem in the District's multiyear financial projections. This update was to also include the necessary Board-approved adjustments that would eliminate projected financial shortfalls for 2005-06, 2006-07 and 2007-08, and support the restoration of the reserves to the minimum required levels in each of these three fiscal years.

The District provided a detailed update of the Board's plan for balancing the 2005-06 budget, including $230.9 million of previously approved reductions. The District also indicated that $61 million in budget shortfalls, reflected for 2006-07 and 2007-08, would be resolved by the receipt of approximately $84 million in potential new state funding expected in 2005-06. However, the District did not provide the supporting details for the source of the $84 million in potential adjustments, the Board has not taken action on these items and we do not yet know how the District will resolve the shortfalls noted for 2006-07 and 2007-08. Furthermore, the District did not submit the Board's plans for addressing the historical shortfalls and related structural problems reflected in the General Fund's multiyear financial projections.

Reserves and Multiyear Projections for 2006-07 and 2007-08

The District's adopted budget reflects a reserve level of 1.0 percent in each of the fiscal years 2005-06, 2006-07 and 2007-08. However, when the District's multiyear projected ending balances are adjusted to eliminate the impact of the $61 million in non-Board-approved expenditure reductions reflected for both 2006-07 and 2007-08, the multiyear reserves, as previously noted, fall significantly below the minimum required level of 1.0 percent to only 0.08 percent in 2006-07 and negative 0.77 percent in 2007-08.

Deficit Spending

The District is projecting an operating deficit of $39.04 million, representing less than one percent of the total budgeted outgo for 2005-06. However, the District also projects that it will maintain the required level of reserves for 2005-06. In addition, the District's multiyear projections reflect deficit spending of approximately $32.32 million and $7.32 million for 2006-07 and 2007-08, respectively.

Although the potential deficit levels for the two subsequent fiscal years are also less than one percent of total projected outgo, deficit spending would increase and reserves would decrease for 2006-07 and 2007-08, when adjusting the District's projections for the $61 million in non-Board-approved expenditure reductions reflected by the District in each of these fiscal years.

Labor Negotiations

Information reflected in the District's adopted budget indicates that labor negotiations for 2005-06 are not settled. Furthermore, the cost of these potential agreements are not included in the adopted budget. When a tentative collective bargaining settlement is reached, we advise the District to carefully determine the impact of any related potential costs on its ability to maintain the minimum level of required reserves.

This is also a reminder of the public disclosure requirements that the District must follow prior to the Governing Board approving any proposed bargaining agreement, and the requirement to submit timely budget adjustments necessary to fulfill the terms of an agreement. Neglecting to submit these revisions to the __________ County Office of Education (County Office), as required, could result in the changing of the

District's next interim report certification from positive to qualified. (Please reference Urgent Bulletin No. 2, dated July 7, 2005).

Workers' Compensation Fund

Our previous letters to the Board requested that the District submit a fiscal recovery plan with the adopted budget to address the Workers' Compensation Fund, which continues to reflect negative fund balances for both the 2004-05 estimated actuals and 2005-06 budget data. We note that the District did not submit an adequate plan for resolving the long-term negative balance projections of the Workers' Compensation Fund.

General Reminder Regarding Debt Issuance

Because the District submitted a qualified Second Interim Report for 2004-05, this letter also serves as a reminder of the statutory requirements placed on school districts with qualified interim report certifications who are considering future debt issuance. These requirements are specifically addressed by E.C. Section 42133(a). With respect to this requirement, we have been notified by the District of its intent to issue short-term debt in the form of Tax Revenue Anticipation Notes (TRANs) for 2005-06.

Actions Required of the District

In order for the County Office to approve the District's budget for 2005-06, the District is required to do the following by September 8, 2005:

- Submit, along with the revised final budget, an updated Board-approved fiscal recovery and stabilization plan that details the specific adjustments that are necessary to eliminate all non-Board-approved reductions, and restore and maintain the minimum required reserves in 2005-06 and for the subsequent two fiscal years.

  In addition, this updated fiscal plan must identify which of the budget balancing solutions approved by the Board and reflected in the revised multiyear projections for 2006-07 and 2007-08 are unrestricted or restricted, and are ongoing or one-time in nature, bearing in mind that all one-time adjustments are valid for one year only and are prohibited from being carried-forward into a subsequent fiscal year.

- Continue to monitor projected deficit levels to ensure that they remain manageable and provide our office an explanation, with the revised final budget, if the levels of deficit spending for 2005-06, 2006-07 or 2007-08 increase.

- Submit budget revisions necessary to adjust the prior year budget for funding collective bargaining agreements approved by the Governing Board in 2004-05, in compliance with G.C. Section 3547.5.

- Submit appropriate documentation to our office prior to the Governing Board taking action to approve the issuance of TRANs debt for 2005-06

Conclusion

We wish to express our appreciation to the District's staff for their cooperation during the preparation and review of the District's budget for fiscal year 2005-06. If our office can be of further assistance, please call me at __________.

Sincerely,

cc:

A2: Sample Letter: budget disapproval

Date

__________________, Board President
_______________ School District
Address
City, State and Zip

Dear _______________:

In compliance with the provisions of Education Code (E.C.) Section 42127, a review of the _________________ School District's (District) revised budget for fiscal year 2005-06 has been completed by the __________________ County Superintendent of Schools (County Superintendent). The District's revised budget for 2005-06 and multiyear projections for 2006-07 and 2007-08 reflect reserve levels of 3.41 percent, 5.40 percent and 6.50 percent, respectively. However, our analysis of the District's 2004-05 unaudited actuals data indicates that significant shortfalls in various resources carried forward from 2004-05 to the 2005-06 budget cause the District's reserve levels to drop to negative 2.73 percent, negative 1.28 percent and negative 0.02 percent in 2005-06, 2006-07 and 2007-08, respectively.

As a result, the District will not be able to meet its financial obligations for 2005-06, 2006-07 and 2007-08 without the implementation of specific board-approved budget reductions and a fiscal recovery plan. Therefore, **we are disapproving the District's revised budget for 2005-06 and are requiring that the District's governing board adopt and implement a fiscal recovery and budget reduction plan that restores the negative fund balance and reserve levels.** The plan should be submitted to the ___________ County Office of Education (County Office) by November 15, 2005.

Resolution of Issues Noted in July Budget

Lease Revenues

In our budget response letter dated August 15, 2005, we expressed concern that the District's 2005-06 adopted budget reflected lease revenues of $339,756 for 2004-05, $356,436 for 2005-06, $372,413 for 2006-07 and $391,243 for 2007-08, that had not been approved by the Office of Public School Construction (OPSC) for operational use. Information provided by the District indicates that the District has now obtained tentative approval from the OPSC to use the lease revenues for operational purposes. We request that the District provide our office a copy of OPSC's formal written authorization as soon as this document is received.

Additional Expenditures for 2004-05 and 2005-06

We had also noted in our budget response letter that various expenditures for 2004-05 and 2005-06 were identified by the District in its July budget narrative but not reflected in the estimated actuals or in the July budget data. Based on our analysis, the District has included adjustments in the revised budget that address these concerns.

Rationale for Disapproval of Revised Final Budget

The District's revised budget projections, as submitted, reflect reserves that are above the required minimum levels. However, our review of the District's 2004-05 unaudited actuals and revised budget for 2005-06 has identified various issues that result in the reduction of the District's adopted reserve to levels below the minimum required 3.0 percent for the current and two subsequent fiscal years.

Overstated Revenue Limit Income

Budgeted revenue limit income should be based on the estimated average daily attendance (ADA) for the budget year or the prior-year P-2 ADA, which ever is greater. The District's projected revenue limit income for 2005-06, as reflected in the revised budget, was based on ADA of 3,200.29. We note that the 3,200.29 ADA represents the District's 2003-04 P-2 ADA. The 2004-05 P-2 ADA was 3,152.67. Since the District continues to experience declining enrollment, it should have computed its 2005-06 budgeted revenue limit income using the ADA level of 3,152.67, rather than the higher level from two years ago. Based on our analysis, the budgeted revenue limit is overstated by 47.62 ADA. This overstatement in ADA requires a revenue and fund balance reduction of $200,442 for 2005-06.

Other Budget Variances

In addition to the above overstatement of ADA and related revenue limit income, we noted various other potential revenue variances in our analysis of the 2004-05 unaudited actuals and budget for 2005-06 that have been discussed with District staff. When adjusted, these variances would result in a net increase in the 2005-06 ending balance of $37,098, as listed below.

Overstated 2004-05 Special Education Revenues	($ 16,066)
Understated 2004-05 Class Size Reduction Revenue	$ 41,177
Overstated 2005-06 Class Size Reduction Revenue	($ 3,393)
Understated 2004-05 Lottery Revenue	$ 5,837
Understated 2005-06 Lottery Revenue	$ 9,543
Net Total Adjustment	$ 37,098

These variances, when combined with the ADA variance of negative $200,442 discussed previously, result in a net decrease to the 2005-06 ending balance of $163,344. The district is requested to make the appropriate adjustments for these variances in its 2005-06 budget.

Negative Ending Balances in Restricted Programs

The District submitted 2004-05 unaudited actuals and 2005-06 budget data that reflected negative balances for several restricted categorical programs. Among these programs are Special Education, reflecting balances of negative $477,657 for 2004-05 and negative $316,994 for 2005-06; Special Education transportation, reflecting balances of negative $174,813 for 2004-05 and negative $254,273 for 2005-06; and regular home-to-school transportation, reflecting a balance of negative $76,561 for both 2004-05 and 2005-06. In addition, various other restricted programs reflect combined balances of negative $61,450 for 2004-05 and negative $572,273 for 2005-06.

These negative balances represent deficit spending by certain restricted programs that require additional contributions from the unrestricted General Fund to the restricted programs in order to resolve the shortfalls. The District recorded actual contributions of $800,000 to restricted programs for 2004-05, and projects nearly $1.68 million in contributions for 2005-06. These contributions notwithstanding, the District still reflects restricted program balances of a negative $790,481 for 2004-05 and negative $1.22 million for 2005-06. The additional unrestricted contributions necessary to resolve these shortfalls pose a serious threat to the District's fiscal solvency.

The impact of these shortfalls and adjustments on the 2005-06 budget and multiyear projections for 2006-07 and 2007-08 is illustrated below.

Shortfalls in the Reserve for Economic Uncertainties

The District's revised final budget, as submitted, projects reserve levels of 3.41 percent for 2005-06, 5.40 percent for 2006-07, and 6.50 percent for 2007-08. However, our analysis indicates that, with the adjustments for increased contributions from the unrestricted General Fund to restricted programs and the adjustments for the 2005-06 revenue variances, the reserve projections declined for the budget and subsequent two fiscal years to negative 2.73 percent for 2005-06, negative 1.28 percent for 2006-07, and negative 0.02 percent for 2007-08, as illustrated in the following table.

	2005-06	2006-07	2007-08
Fund Balance			
Projected Unrestricted Ending Fund Balance	$859,254	$1,209,408	$1,470,777
Less: 2004-05 additional restricted contributions 2005-06 revenue adjustments 2005-06 additional restricted contributions	(790,481) (163,344) (429,621)		
Total 2004-05 and 2005-06 adjustments	(1,383,446)	(1,383,446)	(1,383,446)
Adjusted Ending Fund Balance	($ 524,192)	($ 174,038)	$ 87,331
Reserves			
District's Projected General Fund Reserve, Other Unrestricted Fund Balances, and Special Reserve Fund Balance	$ 767,818	$ 1,117,972	$ 1,379,342
District's Projected Reserve Percentage (as submitted)	3.41 %	5.40 %	6.50 %
Less Fund Balance Adjustments	(1,383,446)	(1,383,446)	(1,383,446)
Adjusted Reserve Amount	($ 615,628)	($ 265,474)	($ 4,104)
Adjusted Reserve Percentage	(2.73 %)	(1.28 %)	(0.02 %)
3.0% Minimum Reserve Requirement	$ 675,894	$ 621,424	$ 636,596
Additional Unrestricted Fund Balance Needed to Restore to 3.0% Level	$1,291,522	$ 886,898	$ 640,700

Other Solvency Related Issues

In addition to the above concerns, we have noted the following issues, which, if not resolved by the District, may further weaken the financial condition of the District for 2005-06 and beyond.

Status of Labor Negotiations

As noted in our letter dated August 15, 2005, the District is in the third year of three-year labor agreements with each of its two bargaining units. These agreements require the certificated and classified salary schedules to be increased annually by the funded Cost-of-Living Adjustment (COLA) percentage paid to the District each fiscal year. The District has indicated that for the 2005-06 fiscal year, the revised final budget reflects a salary increase of approximately 3.10 percent, which represents the District's assumption of a state COLA of 4.23 percent reduced by the deficit factor of 1.129 percent in effect at the time of the District's adoption of its July budget. Based on the District's assumptions for determining the "funded COLA", we recommend that the District confirm that the amounts for salary increases are properly calculated and adequately supported in the adopted revised final budget and multiyear projections.

Increases in Class Size Reduction Program Revenues

We remain concerned about the District's projection of K-3 Class Size Reduction (CSR) revenues for 2005-06. As noted in our August 15th letter, the District continues to budget approximately $390,000 more in CSR Program revenue compared to the CSR revenue reflected in the 2004-05 unaudited actuals. The District has indicated that this increase is due to the planned reinstatement of Grade 3, which was eliminated by the District following the 2002-03 fiscal year.

Based on our analysis, the reinstatement of Grade 3 in 2005-06 might be expected to generate approximately 242 students, the same number that participated in Grade 2 of the program during 2004-05. At $967 per enrollment, this increase in program participation would equate to approximately $234,000 in additional CSR revenues for 2005-06. However, we caution the District that this additional amount of CSR revenue is $156,000 **less** than the $390,000 increase in revenue reflected in the revised budget for 2005-06.

The District's 2005-06 budget assumptions indicate that the CSR program is projected to grow in all other grades as well. We are concerned that the projected CSR growth does not appear to be consistent with the District's ongoing decline in enrollment, which has been projected to continue for fiscal year 2005-06. We further note that the District's projected CSR revenues for 2006-07 and 2007-08 are based on the approximate levels reflected for 2005-06, and appear to also be inconsistent with the recent declining trend in enrollment.

We request that the District carefully assess the accuracy of its CSR enrollments for 2005-06 and revise its budgeted revenues and expenditures accordingly with the submission of the First Interim Report, to reflect any significant shortfall in CSR enrollments is identified.

Deficit Spending and Deficit Management Plan

We have noted that the District is projecting an operating deficit of negative $716,031. This deficit represents 3.18 percent of the District's total projected expenditures and other outgo for fiscal year 2005-06 and exceeds the District's minimum required Reserve for Economic Uncertainties. In addition, this deficit reflects an increase in District spending of $1.06 million over the spending level reflected in the July budget and eliminates the $343,356 surplus projected at that time.

The County Office has expressed concern about the District's historical trend of deficit spending in its letters over the past few years. Because the District has not addressed the ongoing structural imbalances in its budgets, the District's one-time source of unrestricted funds, derived from a previous sale of surplus property was gradually exhausted. As a result, the District is now facing serious fund balance and reserve shortfalls that threaten its fiscal solvency.

In various letters since April 15th, we have asked the District to submit a deficit spending plan that describes the steps the District will take to monitor its spending so that future deficits will be reduced and remain manageable. While the revised final budget again reflects significant deficit spending, we have not received the District's response to this request. The District is required to submit a deficit spending reduction and management plan for 2005-06 and beyond with the First Interim Report.

Fiscal Recovery Plan

In order for the County Office to approve the District's 2005-06 revised budget and multiyear projections for 2006-07 and 2007-08, the District is required to submit a Board-approved fiscal recovery/stabilization and reserve restoration plan to this office by November 15, 2005.

This plan must provide all of the following information:

- Detailed adjustments the District will make to eliminate the 2004-05 and 2005-06 negative restricted balances.
- The specific board-approved budget adjustments and reductions the District will implement in order to restore the negative unrestricted reserves for 2005-06, 2006-07 and 2007-08 to the minimum required levels.
- Specific timelines and board-approved actions the District will implement as part of the fiscal recovery and budget reduction plan for restoring reserves to minimum required levels.
- A preliminary draft of the District's First Interim Report for 2005-06, including the multiyear projections for 2006-07 and 2007-08, prepared for all District funds, a District cash flow analysis, and the related First Interim assumptions.

In addition, the recovery plan should address the specific steps the District will take to correct and continuously monitor the other technical concerns noted in this letter, including the 2005-06 revenue variances, the status of labor negotiations, CSR enrollment and revenue growth, and deficit spending. We further recommend that the District engage an independent external consultant to assist with the tasks of conducting regular and ongoing monitoring of its business and accounting operations and the status of the fiscal recovery plan, as well as the development of its First Interim Report.

General Reminder Regarding Debt Issuance

Because the District's First Interim Report for 2004-05 was qualified, this letter also serves as a reminder of the statutory requirements placed on debt issuance by school districts with qualified interim report certifications. These requirements are specifically addressed by E.C. Section 42133 (a).

Actions Required of the District

The District is required to do the following by November 15, 2005:

- Submit a fiscal recovery and budget reduction plan for restoring reserves to the minimum required levels and to address the other concerns noted
- Provide our office with written evidence that OPSC has approved the use of lease revenues for operational purposes
- Adjust the 2005-06 budget revenue limit income for overstated ADA, and confirm and adjust other 2005-06 revenue variances as appropriate
- Adjust the unrestricted General Fund contributions to restricted programs in order to restore the negative restricted program ending balances for 2004-05 and 2005-06, and ensure accuracy of the unrestricted fund balances and reserves.

In addition, the District is required to provide the following information with the First Interim Report, due to the County Office by December 15, 2005:

- Confirmation that the amounts budgeted for salary increases are accurate and in agreement with the existing labor contracts.
- Confirmation that projected CSR enrollments are accurate, or the related budgeted revisions to adjust CSR revenues and expenditures accordingly.
- A detailed deficit reduction and management plan for 2005-06 and beyond.
- A status report on the implementation of the fiscal recovery and budget reduction plan.

Conclusion

We wish to express our appreciation to the District's staff for their cooperation during the preparation and review of the District's revised final budget for fiscal year 2005-06.

If our office can be of further assistance, please call me at _________.

Sincerely,

cc:

A3: Sample Letter: budget approval with implementation of budget reductions and fiscal stabilization plan

Date

____________, Board President
______________ School District
Address
City, State and Zip

Dear __________:

In accordance with the provisions of Education Code (E.C.) Section 42127, a review of the __________ School District's (District) budget for fiscal year 2005-06 has been completed by the __________ County Superintendent of Schools (County Superintendent). Based on the multiyear projections and assumptions provided by the District, it appears that the District should be able to meet its financial obligations for the current and two subsequent fiscal years, with the implementation of specific board-approved budget reductions and a Fiscal Stabilization Plan that allows the District to restore and maintain the required minimum level of Reserve for Economic Uncertainties for 2006-07 and 2007-08. **The District's budget is therefore approved.**

This letter discusses various issues noted by the __________ County Office of Education (County Office) in its review of the District's 2005-06 budget and corresponding supplemental information provided by the District. These issues include reserves and multiyear projections, deficit spending, a Fiscal Stabilization Plan, status of labor negotiations, and debt issuance.

Reserve and Multiyear Projections

The minimum reserve level for a district of your size is 3.0 percent under the State Criteria and Standards. Our review of the District's 2005-06 revised adopted budget and multiyear projections indicates reserve levels of 3.20 percent for 2005-06, 2.35 percent for 2006-07, and 1.29 percent for 2007-08. However, the cost-of-living adjustment (COLA) used in the District's 2007-08 projection was 3.10 percent instead of the recommended 2.80, resulting in overestimation of revenues by $318,000. When the recommended COLA is used, the District's 2007-08 reserve level is reduced to 1.09 percent. While the 2005-06 reserve level complies with the State Criteria and Standards, the 2006-07 and 2007-08 reserve levels do not.

Deficit Spending
The District is projecting an operating deficit of $4,460,949, representing 2.25 percent of the budgeted total expenditures and transfers out for 2005-06. In addition, the District's multiyear projections reflect deficit spending of $1,634,503 for 2006-07 and $2,004,037 for 2007-08. The District's on-going pattern of deficit spending contributes to the lower-than-required reserve levels in the out years and must be addressed as part of a Fiscal Stabilization Plan.

Fiscal Stabilization Plan
Our budget review letter, dated August 15, 2005, expressed concerns regarding Special Education revenues and K-3 Class Size Reduction revenues, and required submission by the District of a Fiscal Stabilization Plan. Based on our current review, we note that, while the revenue issues have been resolved, the District did not submit a board-adopted Fiscal Stabilization Plan that restores the required reserve levels for 2006-07 and 2007-08.

In order for the County Superintendent to concur with a positive certification of the District's 2005-06 First Interim Report, the District must submit a Fiscal Stabilization Plan. The plan must include recommended COLAs, a detailed listing of specific expenditure reductions and/or revenue enhancements, along with the assumptions used for the 2006-07 and 2007-08 projections. The plan should reduce the District's projected deficit spending and restore the District's reserve levels to the required minimum level for 2006-07 and 2007-08. The District must also provide evidence that this plan has been board-approved and must submit the plan with its First Interim Report, due to the County Office on or before December 15, 2005.

Status of Labor Negotiations
Information reflected in the District's adopted budget indicates that certificated and classified labor negotiations for 2005-06 are not settled. Furthermore, the cost of these potential agreements is not included in the adopted budget. When a collective bargaining settlement is reached, we advise the District to carefully determine the impact of any related potential costs on its ability to maintain the minimum level of required reserves.

This is also a reminder of the public disclosure requirements that the District must follow prior to the Governing Board approving any proposed bargaining agreement, and the requirement to submit timely budget adjustments necessary to fulfill the terms of an agreement.

Debt Issuance
This letter also serves as a reminder of the statutory requirements placed on debt issuance by school districts with qualified interim report certifications. These requirements are specifically addressed by E.C. Section 42133 (a).

Submission of Studies, Reports, Evaluations and/or Audits

We remind the District that E.C. Sections 42127 and 42127.6 requires that the County Office be sent copies of any studies, reports, evaluations, or audits done of the district that contain evidence that the district is showing fiscal distress. We are then required to incorporate that information into our analysis of budgets, interim reports and the district's overall financial condition.

Conclusion

We wish to express our appreciation to the District's staff for their cooperation during the preparation and review of the District's budget for fiscal year 2005-06. If our office can be of further assistance, please call me at __________.

Sincerely,

cc:

B1: Sample first interim response; concurrence with positive certification with implementation of budget reductions and fiscal stabilization plan

Date

__________, Board President
___________ School District
Address.
City, State and Zip

Dear ___________:

In accordance with the provisions of Education Code (E.C.) Section 42131, a review of the ___________ School District's (District) First Interim Report for fiscal year 2004-05 has been completed by the ___________ County Superintendent of Schools (County Superintendent). Based on the multiyear projections and assumptions provided by the District, with data current as of October 31, 2004, it appears that the District should be able to meet its financial obligations for the current and two subsequent fiscal years, with the implementation of specific Board-approved budget reductions and a fiscal stabilization plan that allows the District to maintain the required minimum level Reserve for Economic Uncertainties (REU) for 2004-05, 2005-06, and 2006-07. We therefore concur with the District's positive certification. However, in view of the uncertainties surrounding education funding, the District is urged to exercise caution in implementing its spending priorities.

This letter discusses the various areas of concern noted by the ___________ County Office of Education (County Office) in its review of the District's 2004-05 First Interim Report and any corresponding supplemental information provided by the District. These areas of concern noted during our review include declining enrollment, budget reductions, General Obligation Bond (GOB) election and Certificates of Participation (COPs) repayment, apportionment reduction and payback, reserve levels, deficit spending, labor contract negotiations and submission of studies and reports. The specific findings, comments, and requested actions are reflected in the following sections.

Declining Enrollment, Budget Reductions, GOB Election & COPs Repayment, and Apportionment Reduction and Payback

Declining Enrollment

The District's 2004-05 First Interim Report assumptions and narrative indicate that enrollment is projected to decline in the current and two subsequent fiscal years. The decline in enrollment is equivalent to a loss of 89 ADA for 2004-05 and 172 ADA for

2005-06. While the District is able to use the previous year's average daily attendance for revenue limit funding, it will continue to lose state funding as long as the decline continues. The District's Governing Board has adopted specific budget reductions to offset this decline.

2004-05 Budget Reductions

We noted in our letters to the District dated August 15, 2004, and October 15, 2004, that the District's ability to meet its financial obligations for 2004-05 and the two subsequent years was based on the implementation of specific board-approved budget reductions. On March 25, 2004, the District's Governing Board took action to adopt $3.7 million in budget reductions as one step in assuring the District's fiscal stability. We note with the District's 2004-05 First Interim Report that the Governing Board took a second step by adopting an additional $426,437 in budget reductions to offset the District's declining enrollment and corresponding decrease in state funding.

GOB Election and COPs Repayment

The District was successful in passing a $23 million GOB measure on the November 2004 ballot with over 80 percent approval. As specified in the measure, the District's COPs will be paid in full with the GOB proceeds, thus eliminating the $1.0 million COPs repayments for 2005-06 and 2006-07 in the District's General Fund multiyear projections.

Apportionment Reduction and Payback

We also noted in our August 15, 2004, and October 15, 2004, letters to the District that the California Department of Education (CDE) would withhold approximately $500,500 from the District's regular apportionment, due to insufficient expenditure documentation for Title I and Title IV programs. While the District has received verbal confirmation that this payback has been waived by the CDE, no formal written notification has been received. Therefore, the District continues to reserve this amount in its budget for payment. In addition, the District has also reserved $200,000 in its budget for a possible repayment for failure to meet expenditure timelines for the Eisenhower, Title VI, Immediate Intervention/Underperforming Schools and Advanced Placement Teacher Grant Programs.

Deficit Spending

We have noted that the District is projecting an operating deficit of ($159,264). While this deficit is only one third of one percent of the District's total outgo for fiscal year 2004-05, it is important that any deficit spending be recognized and monitored so that it remains manageable.

Labor Contract Negotiations

According to the information provided in your First Interim Report, labor contract negotiations for 2004-05 remain unsettled and potential increases have not been calculated and incorporated into budgeted salary and benefit expenditures. Because labor costs make up a large portion of the District's budget, we are concerned that the District may have difficulty maintaining the required minimum 3.0 percent REU once a settlement is reached.

This letter is a reminder that, before the District's Board of Education takes any action on a proposed collective bargaining agreement, the District must meet the public disclosure requirements of Government Code Section 3547.5 and the California Code of Regulations Title V, Section 15449. The document used for this analysis was included in Urgent Bulletin No. 6, dated July 15, 2004, and is titled "Assembly Bill (AB) 1200: Public Disclosure of Proposed Collective Bargaining Agreements." Please call me if you need an additional copy.

Also, as provided by the State Criteria and Standards, when certificated labor contract negotiations are settled after the adoption of the District's budget, the District must analyze the budget to determine the effect of the settlement, and the governing board must certify to the validity of the analysis within 45 days of the final settlement. Within this 45 day period, the District Superintendent must also send the County Superintendent any revisions to the District's current budget necessary to fulfill the terms of the agreement. Furthermore, Assembly Bill (AB) 2756 established the following requirement in Government Code Section 3547.5 (c), regarding the processing of these revisions:

> "If a school district does not adopt all of the revisions to its budget needed in the current fiscal year to meet the costs of a collective bargaining agreement, the county superintendent of schools shall issue a qualified or negative certification for the district on the next interim report pursuant to Section 42131 of the Education Code."

Reserve for Economic Uncertainties

We noted in our review of the District's First Interim Report multiyear projections that the revolving cash and stores of approximately $133,428 was inadvertently omitted from the General Fund components of ending balance for 2005-06 and 2006-07. When this amount is deducted from the District's available reserves, the REU becomes 7.06 percent for 2005-06 and 2.75 percent for 2006-07. Since the reserve requirement for a district of your size is 3.0 percent, the 2006-07 reserve currently falls short. Therefore, we are requesting that the District update its multiyear projections to include revolving cash and stores and make the necessary adjustments in order to restore and maintain the reserve at the required level for 2006-07, along with its 2004-05 Second Interim Report, due to the County Office on or before March 15, 2005.

Submission of Studies, Reports, Evaluations and/or Audits

Education Code Sections 42127 and 42127.6 now require districts to submit to the County Office any studies, reports, evaluations, or audits done of the district that contain evidence that the district is showing fiscal distress. They also require the County

Office to incorporate that information into our analysis of budgets, interim reports and the district's overall financial condition.

We request that the District submit to this office any such documents commissioned by the District (e.g., reports done by the Fiscal Crisis and Management Assistance Team), or by the State Superintendent of Public Instruction and/or a state control agency any time they are received by your district.

Conclusion

Thank you for providing documentation that supports the District's positive certification. The multiyear projections, with accompanying narrative and assumptions, were extremely helpful in our analysis of the 2004-05 First Interim Report and in verifying the District's fiscal condition.

We are aware that the information provided reflects the District's financial position and assumptions as of October 31, 2004, and that further adjustments will be made during the year as additional data becomes available. We hope that these comments will be helpful to the District administration and board as you plan for the remainder of 2004-05 and develop your projections for 2005-06 and 2006-07. We wish to express our appreciation to the District staff for their cooperation during the review of the 2004-05 First Interim Report. If our office can be of further assistance, please call me at __________.

Sincerely,

cc:

B2: Sample Letter: First interim; concurrence with self-qualified certification

Date

__________, Board President
__________ School District
Address
City, State and Zip

Dear __________:

In accordance with the provisions of Education Code (E.C.) Section 42131, a review of the __________ School District's (District) First Interim Report for fiscal year 2004-05 has been completed by the __________ County Superintendent of Schools (County Superintendent). The District filed a First Interim Report with a qualified certification. Based on the multiyear projections and assumptions provided by the District, with data current as of October 31, 2004, it appears that the District may not be able to meet its financial obligations for the current fiscal year or two subsequent fiscal years without the implementation of specific Board-approved budget reductions and a fiscal stabilization plan. We therefore concur with the District's qualified certification.

This letter discusses the various areas of concern noted by the __________ County Office of Education (County Office) in its review of the District's 2004-05 First Interim Report and any corresponding supplemental information provided by the District. These areas of concern include deficit spending, reserve levels and labor contract negotiations. The specific findings, comments, and requested actions are reflected in the following sections.

Deficit Spending

The District's projections for fiscal years 2004-05, 2005-06, and 2006-07 reflect an ongoing pattern of deficit spending. According to our review of the District's First Interim data and assumptions, and as confirmed by the District, the projected deficits are primarily due to increased costs in health and welfare benefits. This trend, if left unchecked, would severely impact the District's fiscal stability in future years. **Therefore, we are requesting that the District submit a deficit reduction plan along with its 2004-05 Second Interim Report, due to the County Office on or before March 15, 2005.**

Reserve for Economic Uncertainties

Education Code Section 33128.3 authorizes school districts to temporarily reset their Reserve for Economic Uncertainties for 2004-05 at one-half of the minimum reserve level required under the State Criteria and Standards. E.C. Section 33128.3 also requires that the reserve be restored in 2005-06 to the level required under the State Criteria and Standards, if the District chooses to use the flexibility provisions and reduces its reserve level.

We noted in our review that the District used the reserve flexibility provisions in its First Interim Report with reserve levels projected at 2.11 percent for 2004-05, a negative (2.06 percent) for 2005-06, and a negative (5.92 percent) for 2006-07. We are concerned that the projected reserve levels for 2005-06 and 2006-07 fall short of the reserve threshold set by E.C. Section 33128.3, and are below the level required under the State Criteria and Standards.

We therefore request that the District reevaluate its spending priorities and in accordance with E.C. Section 42127.6 (a) (1) (e), develop, adopt and implement a specific board-approved budget reduction and fiscal stabilization plan that allows the District to restore and maintain the required level of reserves for 2004-05, 2005-06 and 2006-07. The necessary board-approved adjustments must be made to the 2004-05 budget and multiyear projections in order to restore and reflect required reserve levels in the District's 2004-05 Second Interim Report. Correspondence from ___________, Assistant Superintendent, Business Services, dated ____________, indicates that the District has already taken multiple steps to begin this process

Labor Contract Negotiations

According to the information provided in your First Interim Report, labor contract negotiations for 2004-05 remain unsettled and potential increases have not been calculated and incorporated into budgeted salary and benefit expenditures. **Because labor costs make up a large portion of the District's budget, we are concerned that any salary and benefit increase, if paid from reserves or other one-time resources, could adversely impact the fiscal condition of the District.**

We have also received and reviewed your AB 1200 public disclosure and salary settlement analysis (disclosure), indicating that classified labor contract negotiations for 2003-04 are settled for a 0.5 percent one-time off salary schedule total compensation increase and a 0.5 percent one-time total compensation increase in the bargaining unit's health and welfare reserves. This disclosure was submitted prior to the board taking action on the settlement in accordance with Government Code Section 3547.5 and the California Code of Regulations Title V, Section 15449.

We have also received and reviewed your disclosure indicating that labor contract negotiations between the District and ___________ are settled for a 0.5 percent one-time off salary schedule increase and a 0.5 percent on salary schedule increase for 2003-04. While the disclosure of the settlement was submitted to the County Office on December 20, 2004, the District's board had already taken action to approve the settlement on November 30, 2004. District staff have indicated their awareness that, in the future, the District must meet public disclosure requirements before the District's board takes any action on a proposed collective bargaining agreement.

The 2003-04 increases are within the cost of living adjustment from 2002-03 to 2003-04 but exceed the actual percentage change in the District's base revenue limit per average daily attendance when the 3.002 percent deficit factor is applied. Although the costs of the settlement were already included in the District's July 1 final budget, the multiyear projections (MYP) provided in the disclosure, which are identical to the MYP provided in the District's 2004-05 First Interim Report, indicate **that the District is unable to maintain the level of reserves required by the State Criteria and Standards.**

Please note that, pursuant to E.C. Section 42142, within 45 days of a settlement, the District Superintendent must also send to the __________ County Superintendent of Schools (County Superintendent) any revisions to the District's current budget necessary to fulfill the terms of the agreements. Furthermore, Assembly Bill 2756 established the following requirement in Government Code Section 3547.5 (c), regarding the processing of these revisions:

> "If a school district does not adopt all of the revisions to its budget needed in the current fiscal year to meet the costs of a collective bargaining agreement, the county superintendent of schools shall issue a qualified or negative certification for the district on the next interim report pursuant to Section 42131 of the Education Code."

Qualified Certification and Debt Issuance

Because the District filed a qualified First Interim Report certification, this letter is also a reminder of the statutory requirements for debt issuance for school districts with qualified or negative interim report certifications.

These requirements are specifically addressed by E.C. Section 42133(a), which reads:

> "A school district that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, certificates of participation, tax anticipation notes, revenue bonds, or any other debt instruments that do not require the approval of the voters of the district, nor may the district cause an information report regarding the debt instrument to be submitted pursuant to subdivision (e) of Section 149 of Title 26 of the United States Code, unless the county superintendent of schools determines, pursuant to criteria established by the Superintendent of Public Instruction, that the district's repayment of that indebtedness is probable. A school district is deemed to have a qualified or negative certification for purposes of this subdivision if, pursuant to this article, it files that

> certification or the county superintendent of schools classifies the certification of that fiscal year to be qualified or negative."

Annual Report

Pursuant to the provisions of E.C. Section 1240(e), the County Superintendent is required to present an annual report to a school district's governing board and the Superintendent of Public Instruction regarding the fiscal solvency of any school district with a disapproved budget, a qualified or negative interim certification, or that has been determined at any time during the year to be in a position of fiscal uncertainty pursuant to E.C. Section 421276. This report will be issued in June 2005.

Submission of Studies, Reports, Evaluations, and/or Audits

E.C. Sections 42127 and 42127.6 now require districts to submit to the County Office any studies, reports, evaluations, or audits done of the district that contain evidence that the district is showing fiscal distress. They also require the County Office to incorporate that information into our analysis of budgets, interim reports, and the district's overall financial condition.

We request that the District submit to this office any such documents commissioned by the District (e.g., reports done by the Fiscal Crisis and Management Assistance Team), or by the State Superintendent of Public Instruction and/or a state control agency any time they are received by your district.

Conclusion

Thank you for providing documentation that supports the District's qualified certification. The multiyear projections, with accompanying narrative and assumptions, were extremely helpful in our analysis of the 2004-05 First Interim Report and in verifying the District's fiscal condition.

We are aware that the information provided reflects the District's financial position and assumptions as of October 31, 2004, and that further adjustments will be made during the year as additional data becomes available. We hope that these comments will be helpful to the District administration and board as you plan for the remainder of 2004-05 and develop your projections for 2005-06 and 2006-07. We wish to express our appreciation to the District staff for their cooperation during the review of the 2004-05 First Interim Report.

If our office can be of further assistance, please call me at __________.

Sincerely,

C1: Sample second interim response; concurrence with positive certification with implementation of budget reductions and fiscal stabilization plan

Date

____________, Board President
_______________ School District
Street.
City, State and Zip

Dear _____________:

In accordance with the provisions of Education Code (E.C.) Section 42131, a review of the ______________________ School District's (District) Second Interim Report for fiscal year 2004-05 has been completed by the _______________________ Superintendent of Schools (County Superintendent). Based on the multiyear projections and assumptions provided by the District, with data current as of January 31, 2005, it appears that the District should be able to meet its financial obligations for the current and two subsequent fiscal years, with the implementation of specific Board-approved budget reductions and a fiscal stabilization plan that allows the District to maintain the required minimum level Reserve for Economic Uncertainties for 2004-05, 2005-06, and 2006-07. **We therefore concur with the District's positive certification**. However, in view of the uncertainties surrounding education funding, the District is urged to exercise caution in implementing its spending priorities.

This letter discusses the various areas of concern noted by the _______________ County Office of Education (County Office) in its review of the District's 2004-05 Second Interim Report and any corresponding supplemental information provided by the District. These areas of concern include declining enrollment, budget reductions, Certificates of Participation (COPs) repayment, apportionment reduction and payback, labor contract negotiations, reserve levels and submission of studies and reports. The specific findings, comments, and requested actions are reflected in the following sections.

Declining Enrollment

The District's 2004-05 Second Interim Report assumptions and narrative indicate that enrollment has declined in the current year and is projected to further decline in the two subsequent fiscal years. The 5,846 average daily attendance (ADA) reported at First Interim has declined to 5,675 ADA at Second Interim and is projected to decline to 5,626 for 2005-06 and 5,615 for 2006-07. While the District is able to use the previous year's higher average daily attendance for revenue limit funding, it will continue to lose state funding over time as the decline continues. The District's Governing Board has adopted specific budget reductions to offset this decline.

2004-05 Budget Reductions

We noted in our letters to the District dated August 15, 2004, October 15, 2004, and January 14, 2005, that the District's ability to meet its financial obligations for 2004-05 and the two subsequent years was based on the implementation of specific board-approved budget reductions. On March 25, 2004, the District's Governing Board took action to adopt $3.7 million in 2004-05 budget reductions as one step in assuring the District's fiscal stability. We noted with the District's 2004-05 First Interim Report that the Governing Board took a second step by adopting an additional $426,437 in budget reductions to offset the District's declining enrollment and corresponding decrease in state funding. Our review of the Second Interim Report indicates that the District's board-approved multiyear projections include assumptions that would reduce additional staff, if necessary, to offset the projected decline in enrollment for 2005-06 and 2006-07.

COPs Repayment

The District's $23 million General Obligation Bond (GOB) measure that won voter approval in November 2004 specified that the District's COPs balance would be retired with GOB proceeds. Information provided by the District indicates that in March 2005, the COPs were retired, allowing the approximately $1.9 million held in the District's Special Reserve Fund for COPs repayment to be made available for the District's Reserve for Economic Uncertainties.

Apportionment Reduction and Payback

We also noted in our August 15, 2004, October 15, 2004, and January 14, 2005, letters to the District that the California Department of Education (CDE) would withhold approximately $500,500 from the District's regular apportionment, due to insufficient expenditure documentation for the Title I program. On February 15, 2005, the CDE formally notified the District that the in-depth expenditure documentation submitted by the District on October 25, 2004, was sufficient to resolve approximately $455,000 of this repayment, with no apportionment withheld. However, the District continues to reserve approximately $48,000 for the balance of the Title I repayment, and $200,000 for other categorical program repayments.

Labor Contract Negotiations

According to the information provided in your Second Interim Report, labor contract negotiations for 2004-05 remain unsettled and potential increases have not been calculated and incorporated into budgeted salary and benefit expenditures. Because labor costs make up a large portion of the District's budget, we recommend that the District carefully evaluate the impact of any collective bargaining agreements on the

District's ability to maintain the required minimum 3.0 percent Reserve for Economic Uncertainties before negotiations are settled.

This letter is a reminder that, before the District's Board of Education takes any action on a proposed collective bargaining agreement, the District must meet the public disclosure requirements of Government Code Section 3547.5 and the California Code of Regulations Title V, Section 15449. The document used for this analysis was included in Urgent Bulletin No. 6, dated July 15, 2004, and titled "Assembly Bill (AB) 1200: Public Disclosure of Proposed Collective Bargaining Agreements" and was updated by Urgent Bulletin No. 271, dated January 28, 2005, titled "Update: New Certification Form for Assembly Bill 1200: Public Disclosure of Proposed Collective Bargaining Agreements." Please call me if you need additional copies.

Also, as provided by the State Criteria and Standards, when certificated labor contract negotiations are settled after the adoption of the District's budget, the District must analyze the budget to determine the effect of the settlement, and the governing board must certify to the validity of the analysis within 45 days of the final settlement. Within this 45 day period, the District Superintendent must also send the County Superintendent any revisions to the District's current budget necessary to fulfill the terms of the agreement. Furthermore, Assembly Bill (AB) 2756 established the following requirement in Government Code Section 3547.5 (c), regarding the processing of these revisions:

> "If a school district does not adopt all of the revisions to its budget needed in the current fiscal year to meet the costs of a collective bargaining agreement, the county superintendent of schools shall issue a qualified or negative certification for the district on the next interim report pursuant to Section 42131 of the Education Code."

Reserve for Economic Uncertainties

We noted in our review of the District's First Interim Report multiyear projections that the revolving cash and stores of approximately $133,428 was inadvertently omitted from the General Fund components of ending balance for 2005-06 and 2006-07. When this amount was deducted from the District's available reserves, the Reserve for Economic Uncertainties fell below the required minimum level for 2006-07. Our review of the District's Second Interim Report indicates that the revolving cash and stores were included in the multiyear projections, along with reserves now available from the Special Reserve Fund, and the District's required reserve level for 2006-07 is restored.

Submission of Studies, Reports, Evaluations, and/or Audits

Education Code Sections 42127 and 42127.6 now require districts to submit to the County Office any studies, reports, evaluations, or audits done of the district that contain evidence that the district is showing fiscal distress. They also require the County

Office to incorporate that information into our analysis of budgets, interim reports and the district's overall financial condition.

We request that the District submit to this office any such documents commissioned by the District (e.g., reports done by the Fiscal Crisis and Management Assistance Team), or by the State Superintendent of Public Instruction and/or a state control agency any time they are received by your district.

Conclusion

Thank you for providing documentation that supports the District's positive certification. The multiyear projections, with accompanying narrative and assumptions, were extremely helpful in our analysis of the 2004-05 Second Interim Report and in verifying the District's fiscal condition.

We are aware that the information provided reflects the District's financial position and assumptions as of January 31, 2005, and that further adjustments will be made during the year as additional data becomes available. We hope that these comments will be helpful to the District administration and board as you plan for the remainder of 2004-05 and develop your projections for 2005-06 and 2006-07. We wish to express our appreciation to the District staff for their cooperation during the review of the 2004-05 Second Interim Report. If our office can be of further assistance, please call me at ____________.

Sincerely,

cc:

C2: Sample Letter: Second interim, change of certification from positive to qualified

Date

__________, Board President
__________ School District
Address
City, State and Zip code

Dear __________:

In accordance with the provisions of Education Code (E.C.) Section 42131, a review of the __________ School District's (District) Second Interim Report for fiscal year 2004-05 has been completed by the __________ County Superintendent of Schools (County Superintendent). Based on our analysis of the report and supplemental information received by the __________ County Office of Education (County Office), it appears that the District may not be able to meet its financial obligations for the current fiscal year. **We are therefore unable to concur with the District's positive certification and are changing the District's certification from positive to qualified.**

In response to this certification and as provided by E.C. Section 42127.6, the County Superintendent is authorized to take a series of actions, including requiring the District to update its fund and cash balances as projected through June 30, 2005 (Third Interim Report). The report is due to the County Office by June 1, 2005.

While we are taking action to assign the District a "qualified" certification, we wish to acknowledge the prompt and decisive fiscal recovery steps that the District has taken in response to the First Interim certification. As a result of these actions, we believe that the fiscal deficiency is current year and temporary. Further, based on the current information provided by the District, we concur with the projections that the District should be able to meet its financial obligations in the two subsequent years.

Reserve for Economic Uncertainties

As noted in our letter dated January 14, 2005, the County Office did not concur with the District's First Interim Report positive certification and changed the certification from positive to qualified. The District was requested to submit a fiscal stabilization/recovery plan with the Second Interim Report. Our analysis of the data submitted with the Second Interim Report indicates that the District has aggressively taken steps to address the shortfalls noted in our First Interim letter. However, the Second Interim Report reflects fund balance and reserve levels for 2004-05 that are significantly below the minimum levels required under E.C. Section 33128.3 and the State Criteria and Standards.

District Recovery Plan

Following the completion of the District's First Interim Report, the District reported prior year expenses totaling $3.3 million which had been paid from, but not recorded as, expenses in the District's General Fund.

Our First Interim response letter noted our concern regarding the impact of these expenses on the District's reserve levels. The adjustment for the unrecorded expenses reduced the District's reserve levels for 2004-05, 2005-06 and 2006-07 to a negative (0.44) percent, zero percent, and 2.45 percent respectively.

Unrecorded General Fund Expenses and Reserve Levels

Our review of the Second Interim Report indicates that the District resolved the unrecorded expenses with an audit adjustment of $2.5 million to the General Fund and a contribution of $785,000 from the Unrestricted General Fund to the Special Education preschool program. Information provided by the District indicates that the District implemented midyear budget reductions of $1.4 million for 2004-05 and the District's Governing Board adopted budget reductions of $3.3 million for 2005-06. The District's 2005-06 reductions included $750,000 for "option two" in kindergarten (which still must be negotiated with the certificated union) or for class loading/class size increases in grades K-3 and 4-12. As a result of the adjustments and Board-adopted budget reductions, the District's Second Interim Report reflected reserve levels of 0.32 percent, 4.27 percent, and 9.06 percent for 2004-05, 2005-06 and 2006-07 respectively. The 0.32 percent reserve level for 2004-05 falls significantly below the minimum reserve level required under E.C. Section 33128.3.

Education Code Section 33128.3 authorizes school districts to temporarily reset their Reserve for Economic Uncertainties for 2004-05 at one-half of the minimum reserve level required under the State Criteria and Standards. The reserve level for a district of your size is 3.0 percent and the flexibility provisions of E.C. Section 33128.3 would allow the District's reserves to be 1.5 percent for 2004-05. Although the District's governing board has taken significant actions to restore the current year reserve level, the existing lower-than-required reserve level is a measure that the District is technically not meeting <u>all</u> of its required fiscal responsibilities for 2004-05.

Retiree Benefit Fund

We had previously expressed concern regarding the declining fund balance in the Retiree Benefit Fund and requested an update on the fund's status. The District has submitted an update, which forecasts that the Retiree Benefit Fund balance will end 2004-05 at $13,963. The District projects the 2005-06 and 2006-07 fund balances will also be $13,963.

Should the fund balance become negative, it would require a transfer from the General Fund. We remain concerned about the potential need for future General Fund transfers and request that the District provide an update and multiyear projections for the Retiree Benefit Fund with the Third Interim Report.

Qualified Certification and Debt Issuance

Because the District's First and Second Interim Report certifications have been changed from positive to qualified, this letter is also a reminder of the statutory requirements for debt issuance for school districts with qualified or negative interim report certifications.

These requirements are specifically addressed by E.C. Section 42133(a), which reads:

> "A school district that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, certificates of participation, tax anticipation notes, revenue bonds, or any other debt instruments that do not require the approval of the voters of the district, nor may the district cause an information report regarding the debt instrument to be submitted pursuant to subdivision (e) of Section 149 of Title 26 of the United States Code, unless the county superintendent of schools determines, pursuant to criteria established by the Superintendent of Public Instruction, that the district's repayment of that indebtedness is probable. A school district is deemed to have a qualified or negative certification for purposes of this subdivision if, pursuant to this article, it files that certification or the county superintendent of schools classifies the certification of that fiscal year to be qualified or negative."

Third Interim Report

Pursuant to E.C. Section 42131 (e), any school district that files a qualified or negative Second Interim Report, or which has a positive certification changed to qualified or negative by the County Superintendent must provide the County Superintendent, the State Controller's Office, and the Superintendent of Public Instruction with a financial statement projecting the district's fund and cash balances through June 30 for the period ending April 30, 2005 (Third Interim Report). These reports, projections, and supporting assumptions should be submitted to the County Office not later than June 1, 2005.

Labor Contract Negotiations

According to the information provided in your Second Interim Report, labor contract negotiations for 2003-04 and 2004-05 remain unsettled and potential increases have not been calculated and incorporated into budgeted salary and benefit expenditures. Because labor costs make up a large portion of the District's budget, we are concerned that any salary and/or benefit increase would adversely impact the fiscal condition of the District.

As a reminder, before the District's Board of Education takes any action on a proposed collective bargaining agreement, the District must meet the public disclosure requirements of Government Code (GC) Section 3547.5 and the California Code of Regulations Title V, Section 15449. Forms and procedures related to this may be obtained from __________, the Business Services Consultant for __________ School District.

State Criteria and Standards require that when certificated labor contract negotiations are settled after the adoption of the District's budget, the District must analyze the budget to determine the effect of the settlement, and the Governing Board must certify to the validity of the analysis within 45 days of the final settlement. The District Superintendent must also send the County Superintendent any revisions to the District's current budget necessary to fulfill the terms of the agreement per AB 2756 and GC Section 3547.5 (c).

Annual Report

Pursuant to the provisions of E.C. Section 1240(e), the County Superintendent is required to present an annual report to a school district's governing board and the Superintendent of Public Instruction regarding the fiscal solvency of any school district with a disapproved budget, a qualified or negative interim certification, or that has been determined at any time during the year to be in a position of fiscal uncertainty pursuant to E.C. Section 421276. This report will be issued in June 2005.

Submission of Studies, Reports, Evaluations, and/or Audits

E.C. Sections 42127 and 42127.6 now require districts to submit to the County Office any studies, reports, evaluations, or audits done of the district that contain evidence that the district is showing fiscal distress. They also require the County Office to incorporate that information into our analysis of budgets, interim reports, and the district's overall financial condition.

We request that the District submit to this office any such documents commissioned by the District (e.g., reports done by the Fiscal Crisis and Management Assistance Team, independent consultants commissioned by the District, etc.), or by the State Superintendent of Public Instruction and/or a state control agency any time they are received by your district.

Conclusion

We are aware that the information provided reflects the District's financial position and assumptions to date, and that further adjustments will be made during the year as additional data becomes available. We hope that these comments will be helpful to the District administration and board as you plan for the remainder of 2004-05 and develop your projections for 2005-06 and 2006-07.

We wish to express our appreciation to the District staff for their cooperation during the review of the 2004-05 Second Interim Report.

If our office can be of further assistance, please call me at (562) 922-6124.

Sincerely,

cc:

D1: Sample response to collective bargaining agreement disclosure, with COE concerns

Date

Board President
Any School District
Street.
City, State and Zip

Dear ________:

In accordance with the provisions of Assembly Bill 1200 (Chapter 1213/Statutes 1992), Government Code Section 3547.5, and the California Code of Regulations (Title V, Section 15449), the __________ County Office of Education has reviewed the _______________ School District's (District) "AB 1200 Public Disclosure of Proposed Collective Bargaining Agreements" (Disclosure), reflecting the tentative agreement between the District and the __________ Teachers Association.

This tentative agreement is for the period beginning July 1, 2002, and ending June 30, 2005. While there are no increases for 2002-03, the agreement increases the 2003-04 salary schedule by 1.29 percent, retroactive to September 1, 2003; increases total longevity pay cost by $49,700; and increases the Health and Welfare benefits cap from $5,700 to $6,400 per eligible employee, retroactive to October 1, 2003, for a total compensation increase of 2.6 percent. This increase exceeds the actual percentage change in the District's base revenue limit from 2002-03 to 2003-04.

The District's financial analysis, as reflected in the Disclosure, indicates that the District expects to fund this agreement and maintain the minimum level of Reserve for Economic Uncertainties (REU) required under the State Criteria and Standards. However, the District's ability to do so is **contingent upon** the governing board implementing the following.

- For 2003-04, the District transferred one-time monies from the District's Special Reserve and Retiree Benefits Funds to the General Fund, which was approved by the governing board and reflected in the District's First Interim Report.
- For 2004-05, the District's governing board **must approve** expenditure reductions totaling approximately $3.7 million on March 25, 2004, as proposed by the District's Budget Committee and included with the District's 2003-04 Second Interim Report multiyear projections.

We also note that labor contract negotiations for classified staff for 2002-03 and 2003-04 remain unsettled and potential increases have not been incorporated into the

District's financial analysis. Without additional revenue sources or expenditure reductions, any classified settlement could lower the District's REU below the level required in the State Criteria and Standards. While Education Code (E.C.) Section 33128.3 authorizes school districts to temporarily reduce their REUs for 2003-04 and 2004-05 to one-half of the minimum reserve level required under the State Criteria and Standards, the REU must be restored to the required level in 2005-06. **If the District's governing board does not approve the proposed 2004-05 expenditure reductions, or receive offsetting revenue, the District's ability to maintain the required REU in 2004-05 and 2005-06, could be jeopardized.**

Please note that, pursuant to E.C. Section 42142, within 45 days of the ratified settlement, the District superintendent must also send to the __________ County Superintendent of Schools any revisions to the District's current budget necessary to fulfill the terms of the agreement.

We wish to express our appreciation to the District staff for their cooperation during the review of the AB 1200 Public Disclosure and salary settlement analysis. If our office can be of further assistance, please call me at (562) 922-6226.

Sincerely,

cc:

D2: Sample Letter: Response to collective bargaining agreement disclosure, with no COE concerns

Date

__________, Board President
__________ School District
Address
City, State and Zip

Dear __________:

In accordance with the provisions of AB 1200, Government Code Section 3547.5, and the California Code of Regulations Title V, Section 15449, the __________ County Office of Education has reviewed the public disclosure and salary settlement analysis (disclosure), indicating that labor contract negotiations between the __________ School District (District) and the California School Employees Association (CSEA) are tentatively settled for 2004-05 for a total compensation increase of 3.0 percent. The increase is a combination of a 2.25 percent increase approved by the District's governing board on January 27, 2005, and a 0.75 percent that will be acted upon by the governing board on June 9, 2005, as a result of a "me too" clause included in the CSEA contract.

According to the District's financial analysis included in the disclosure, the costs of the tentative agreement are incorporated into the 2004-05 budget with no additional budget revisions required, and the District is able to maintain the level of reserves required by the State Criteria and Standards for the current and two subsequent years.

We would like to express our appreciation to District staff for their cooperation during the review of the AB 1200 public disclosure and salary settlement analysis.

If our office can be of further assistance, please call me at __________.

Sincerely,

cc:

E: Sample Letter: AB 139 Annual Report

Date

__________, Board President
__________ School District
Address
City, State and Zip

Dear __________:

This letter to the __________ School District (District) Governing Board is a summary of the analyses completed by the __________ County Office of Education (County Office) regarding the fiscal status of the District during the 2004-05 fiscal year. The summary reflects the main concerns noted in the County Office's assessment of the District's Second and "Third" Interim Reports and labor contract negotiations, and provides a reminder regarding any future debt issuance considered by the District. This report fulfills the County Office's requirement (pursuant to Education Code [E.C.] Section 1240[e]) to present an annual report to the governing board and the Superintendent of Public Instruction on the fiscal solvency of any district with a qualified interim report.

2004-05 Fiscal Solvency Summary

The __________ County Superintendent of Schools (County Superintendent) approved the District's Final Budget for 2004-05 and concurred with the District's positive First Interim Report certification. The District submitted its 2004-05 Second Interim Report with a qualified certification. Based on the projections and assumptions provided by the District, it appeared that the District might not meet its financial obligations in 2005-06 and 2006-07 without the implementation of Board-approved budget reductions and a fiscal stabilization plan that allowed the District to restore/maintain its reserves. We therefore concurred with the District's qualified certification.

A summary of the Second Interim Report concerns and the District's resolution or plan of resolution, as reflected in its "Third Interim Report," follows.

Second Interim Report

Reserve for Economic Uncertainties

We noted in our letter dated April 15, 2005, that the District used the E.C. Section 33128.3 reserve flexibility provisions in preparing its Second Interim Report, with projected reserve levels at 1.90 percent, 2.02 percent and 1.87 percent for 2004-05, 2005-06 and 2006-07, respectively. While the reserve level for 2004-05 was within the flexibility guidelines, the 2005-06 and 2006-07 projected reserves were less than the three percent level required for the District.

We requested that the District make Board-approved adjustments to the 2004-05 budget and multiyear projections to restore and maintain the reserve at the required level for 2005-06 and 2006-07, and to reflect these adjustments and revised projections, as required by E.C. Section 42131(e), in "…financial statement projections of the district's fund and cash balances through June 30 for the period ending April 30 (aka "Third Interim Report")."

Deficit Spending

We noted in our April 15, 2005, letter that the District was projecting an operating deficit of ($2,607,568), which represented 1.42 percent of the District's projected expenditures and other outgo for fiscal year 2004-05. This was primarily due to the encroachment of restricted programs on unrestricted resources and the expenditure of restricted fund balance carried forward from the prior year.

We also noted that the District's General Fund ending balance had decreased as a result of deficit spending in prior years, and acknowledged the District's efforts to address the funding shortfall in the fiscal recovery plan and budget reductions approved by the District's Governing Board on March 1, 2005. However, we expressed the concern that, if deficit spending did not decrease as District staff projected for 2005-06 and 2006-07, it would severely impact the District's fiscal stability. We requested that the District submit a deficit reduction plan with its 2004-05 "Third Interim Report."

Third Interim Report

The following is a table comparing the District's financial projections from Second Interim to "Third Interim."

General Fund Fiscal Summary (with Special Education Pass-Through)

	Second Interim	"Third Interim"
2004-05		
Revenue Limit ADA	21,500	21,452
Total Revenues	$181,392,737	$182,746,655
Total Expenditures	$184,000,305	$185,878,253
Surplus/(Deficit) $	($2,607,568)	($3,131,593)
Surplus/(Deficit) %	(1.42%)	(1.68%)
REU $	$2,934,670	$2,410,639
REU %	1.90%	1.54%

2005-06		
Revenue Limit ADA	21,500	21,500
Total Revenues	$187,128,527	$187,762,400
Total Expenditures	$186,544,584	$186,762,918
Surplus/(Deficit) $	$583,943	$999,482
Surplus/(Deficit) %	0.31%	0.54%
REU $	$3,763,611	$3,655,121
REU %	2.02%	1.96%
2006-07		
Revenue Limit ADA	21,351	21,351
Total Revenues	$191,016,491	$191,687,974
Total Expenditures	$191,210,560	$192,194,710
Surplus/(Deficit) $	($194,069)	($506,736)
Surplus/(Deficit) %	(0.10%)	(0.26%)
REU $	$3,569,542	$3,148,385
REU %	1.87%	1.64%

Reserve for Economic Uncertainties

The minimum Reserve for Economic Uncertainties required for a district of your size is three percent. Based on data submitted with the "Third Interim Report," the reserves projected for 2005-06 and 2006-07 remain below the minimum required reserve level at 1.96 percent and 1.64 percent, respectively.

The below-minimum reserve levels projected for 2005-06 and 2006-07 indicate that the District's Governing Board has not yet finalized the fiscal recovery plan needed to reverse the declining General Fund ending balance trend. We remind the District that reserve levels must be at or above the minimum required for 2005-06, 2006-07 and 2007-08 in order for the County Superintendent to be able to approve the District's 2005-06 budget.

Deficit Spending

The District projected operating deficits of 1.42 percent and 1.68 percent, respectively, for 2004-05 in both financial reporting periods listed above. In addition, the District's "Third Interim Report" projected an operating surplus of 0.54 percent for 2005-06 and operating deficit of 0.26 percent for 2006-07. According to our review of data submitted by the District, and as confirmed by the District, the 2004-05 projected deficit is primarily due to the encroachment of restricted programs on unrestricted resources and the expenditure of restricted fund balance carried forward from the prior year.

Labor Contract Negotiations

To date, certificated labor contract negotiations for 2004-05 remain unsettled and potential increases have not been calculated and incorporated into budgeted salary and benefit expenditures. Classified negotiations were settled for no increase on May 3, 2005. Because labor costs make up a large portion of the District's budget, we are concerned that any salary and benefit increase, if paid from reserves or other one-time resources, could further adversely impact the fiscal condition of the District.

Debt Issuance

This letter also serves as a reminder of the statutory requirements placed on debt issuance by school districts with qualified interim report certifications. These requirements are specifically addressed by E.C. Section 42133(a).

CONCLUSION

We are aware that the information provided with each of the District's financial reports submitted during fiscal year 2004-05 reflected the District's financial position and assumptions at specific points in time and that further adjustments will be made, as new data becomes available. We hope that these comments will be helpful to the District administration and board as you begin fiscal year 2005-06. We wish to express our appreciation to the District staff for their cooperation during all financial report reviews during 2004-05. If our office can be of further assistance, please call me at __________.

Sincerely,

cc:

Appendices

Appendix A

Criteria & Standards for Reviewing County and School District Budgets

Criteria and Standards
County Offices of Education – Budgets

Criterion Standard

(Deviations from the standards must be explained and may affect the approval of the budget.)

<table>
<tr><td>1. Average Daily Attendance</td><td colspan="4">Projected countywide (Education Code Section 1205) average daily attendance (ADA) has not been overestimated in the first prior year or in two or more of the previous three years by more than the following percentage levels:</td></tr>
<tr><td></td><td>3.0%</td><td>for counties with</td><td>Under</td><td>7,000 ADA</td></tr>
<tr><td></td><td>2.0%</td><td>for counties with</td><td>7,000 -</td><td>59,999 ADA</td></tr>
<tr><td></td><td>1.0%</td><td>for counties with</td><td>Over</td><td>59,999 ADA</td></tr>
<tr><td></td><td colspan="4">Projected ADA for county-operated programs for any of the budget year or two subsequent fiscal years has not increased by more than two percent from the historical average ratio from the three prior fiscal years.</td></tr>
<tr><td>2. Revenue Limit</td><td colspan="4">Projected revenue limit for any of the budget year or two subsequent fiscal years has not changed by more than one percent plus or minus the change in population growth and the funded cost-of-living adjustment from the prior year.

For basic aid counties, projected revenue limit has not changed by more than the percent increase in property tax revenues from the prior fiscal year.</td></tr>
<tr><td>3. Salaries and Benefits</td><td colspan="4">Projected ratio of total salaries and benefits to total county school service fund expenditures (excluding transfers out and other financing uses) for any of the budget year or two subsequent fiscal years has not changed by more than two percent from the historical average ratio from the three prior fiscal years.</td></tr>
<tr><td>4. Other Revenues and Expenditures</td><td colspan="4">Projected operating revenues and expenditures by major object category for any of the budget year or two subsequent fiscal years have not changed by more than five percent from the prior year amount.</td></tr>
<tr><td>5. Facilities Maintenance</td><td colspan="4">Confirm that the annual contribution for facilities maintenance funding is not less than the amounts required pursuant to Education Code Section 17584, if applicable, and Education Code Section 17070.75.</td></tr>
<tr><td>6. Deficit Spending</td><td colspan="4">Deficit spending (revenues plus transfers in and other financing sources, less expenditures, transfers out and other financing uses) resulting in a negative amount, as a percentage of total expenditures, transfers out and other financing uses[1], has not exceeded the following absolute percentage levels[2] in two out of three prior fiscal years:</td></tr>
</table>

Criterion	Standard			
	1.7%	for counties with total expenditures, transfers out and other financing uses of	Less Than	$4,421,000
	1.3%	“	$4,421,000 -	$11,051,999
	1.0%	“	$11,052,000 -	$49,734,000
	0.7%	“	Over	$49,734,000
7. Fund Balance	Budgeted beginning unrestricted county school service fund balance has not been overestimated for two out of three prior fiscal years by the following percentage levels[2]:			
	1.7%	for counties with total expenditures, transfers out and other financing uses[1] of	Less Than	$4,421,000
	1.3%	“	$4,421,000 -	$11,051,999
	1.0%	“	$11,052,000 -	$49,734,000
	0.7%	“	Over	$49,734,000
8. Reserves	Available reserves[3] for any of the budget year or two subsequent fiscal years are not less than the following percentages or amounts as applied to total expenditures, transfers out and other financing uses[1]:			
	the greater of 5% or $50,000[4]	for counties with total expenditures, transfers out and other financing uses of	Less Than	$4,421,000
	the greater of 4% or $200,000[4]	“	$4,421,000 -	$11,051,999
	the greater of 3% or $400,000[4]	“	$11,052,000 -	$49,734,000
	the greater of 2% or $1,350,000[4]	“	Over	$49,734,000

Supplemental Information

Provide supplemental information as follows:

	Provide methodology and assumptions used to estimate ADA, enrollment, revenues, expenditures, reserves and fund balance, and multiyear commitments (including cost-of-living adjustments). Provide information on additional indicators as requested.
S1. Contingent Liabilities	Identify any known or contingent liabilities from financial or program audits, state compliance reviews, litigation, etc., that may impact the budget.
S2. Use of One-time Revenues for Ongoing Expenditures	Identify any ongoing county school service fund expenditures in excess of one percent of the total county school service fund expenditures that are funded with one-time resources in the budget year, and explain how the one-time resources will be replaced to continue funding the ongoing expenditures in the following years.
S3. Use of Ongoing Revenues for One-time Expenditures	Identify any large non-recurring county school service fund expenditures that are funded with ongoing county school service fund revenues.
S4. Contingent Revenues	Identify projected revenues for any of the budget year or two subsequent fiscal years that are contingent on reauthorization by the local government, special legislation, or other definitive act, e.g. parcel taxes. If any of these revenues are dedicated for ongoing expenses, explain how the revenues will be replaced or the expenditures reduced.
S5. Contributions	Identify projected contributions from the unrestricted county school service fund to restricted programs in the county school service fund for any of the budget year or two subsequent fiscal years. Provide an explanation if contributions have changed by more than ten percent from prior year amounts. Explanation should include whether contributions are ongoing or one-time in nature. Identify projected transfers to or from the county school service fund to cover operating deficits in either the county school service fund or any other fund for any of the budget year or two subsequent fiscal years. Provide an explanation if transfers have changed by more than ten percent from prior year amounts. Explanation should include whether transfers are ongoing or one-time in nature. Estimate the impact of any capital projects on the county school service fund operational budget.
S6. Long-term Commitments	Identify all existing multiyear commitments and their annual required payment, and all new multiyear commitments and their annual fiscal impact. Also identify continuing and new multiyear debt agreements and new programs. Compare the increase in long-term commitments to the projected increase in ongoing revenues and explain how these commitments will be funded in future years.

Supplemental Information

Provide supplemental information as follows:

S7. Unfunded Liabilities	Estimate the unfunded liability for post-employment benefits based on an actuarial study, if required, or other method; and identify the estimated or required annual contribution and how the costs are accounted for (pay as you go, amortized over a specific period, etc.). Estimate the unfunded liability for any other self-insured benefits programs (e.g. workers compensation), based on an actuarial study, if required, or other method; and identify the estimated or required annual contribution and how the costs are accounted for (pay as you go, amortized over a specific period, etc.).
S8. Status of Labor Agreements	Analyze the status of labor agreements. Identify new labor agreements, as well as new commitments provided as part of previously ratified multiyear agreements; and include all contracts, including all administrator contracts (and including all compensation). For new agreements, indicate the date of the required board meeting. Compare the increase in new commitments to the projected increase in ongoing revenues and explain how these commitments will be funded in future years. If salary and benefit negotiations are not finalized at budget adoption, upon settlement with certificated or classified staff: • The county office of education must determine the cost of the settlement, including salaries, benefits, and any other agreements that change costs, and provide the California Department of Education (CDE) with an analysis of the cost of the settlement and its impact on the operating budget. • The CDE shall review the analysis relative to the criteria and standards and may provide written comments to the president of the governing board and the county superintendent of schools.

Notes

1. An Administrative Unit of a Special Education Local Plan Area may exclude the distribution of revenues to its participating members. Dollar thresholds to be adjusted annually by the prior year statutory cost of living adjustment (Education Code Section 2557), rounded to the nearest thousand.
2. Percentage levels equate to a rate of deficit spending which would eliminate recommended reserves for economic uncertainties over a three-year period.
3. Available reserves from the Juvenile Court / County Community Schools and Regional Occupational Centers / Programs may be included, up to the applicable percentage of program expenditures. Funds designated as reserves for this purpose continue to be restricted for use only in those programs.
4. Dollar thresholds to be adjusted annually by the prior year statutory cost of living adjustment (Education Code Section 2557), rounded to the nearest thousand.

Criteria and Standards
School District – Budgets

Criterion Standard

(Deviations from the standards must be explained and may affect the approval of the budget.)

1. Average Daily Attendance	Funded average daily attendance (ADA) has not been overestimated in the first prior year or in two or more of the previous three years by more than the following percentage levels:			
	3.0%	for districts with	0 -	300 ADA
	2.0%	for districts with	301 -	1,000 ADA
	1.0%	for districts with	1,001 -	and over ADA
2. Enrollment	Projected enrollment has not been overestimated in the first prior year or in two or more of the previous three years by more than the following percentage levels:			
	3.0%	for districts with	0 -	300 ADA
	2.0%	for districts with	301 -	1,000 ADA
	1.0%	for districts with	1,001 -	and over ADA
3. ADA to Enrollment Ratio	Projected second period ADA to enrollment ratio for any of the budget year or two subsequent fiscal years has not increased by more than one half of one percent from the historical average ratio from the three prior fiscal years.			
4. Revenue Limit	Projected revenue limit for any of the budget year or two subsequent fiscal years has not changed by more than one percent plus or minus the change in population growth and the funded cost-of-living adjustment from the prior year. For basic aid districts, projected revenue limit has not changed by more than the percent increase in property tax revenues from the prior fiscal year. For districts funded by necessary small school formulas, projected revenue limit has not changed by more than the prior year amount plus the funded cost-of-living adjustment.			
5. Salaries and Benefits	Projected ratio of total salaries and benefits to total general fund expenditures (excluding transfers out and other financing uses) for any of the budget year or two subsequent fiscal years has not changed by more than two percent from the historical average ratio from the three prior fiscal years.			
6. Other Revenues and Expenditures	Projected operating revenues and expenditures by major object category for any of the budget year or two subsequent fiscal years have not changed by more than five percent from the prior year amount.			
7. Facilities Maintenance	Confirm that the annual contribution for facilities maintenance funding is not less than the amounts required pursuant to *Education Code* Section 17584, if applicable, and *Education Code* Section 17070.75.			

Criterion	Standard			
8. Deficit Spending	Deficit spending (revenues plus transfers in and other financing sources, less expenditures, transfers out and other financing uses) resulting in a negative amount, as a percentage of total expenditures, transfers out and other financing uses, has not exceeded the following absolute percentage levels[1] in two out of three prior fiscal years:			
	1.7%	for districts with	0 -	300 ADA
	1.3%	for districts with	301 -	1,000 ADA
	1.0%	for districts with	1,001 -	30,000 ADA
	0.7%	for districts with	30,001 -	400,000 ADA
	0.3%	for districts with	400,001 -	and over ADA
9. Fund Balance	Budgeted beginning unrestricted general fund balance has not been overestimated for two out of three prior fiscal years by the following percentage levels[1]:			
	1.7%	for districts with	0 -	300 ADA
	1.3%	for districts with	301 -	1,000 ADA
	1.0%	for districts with	1,001 -	30,000 ADA
	0.7%	for districts with	30,001 -	400,000 ADA
	0.3%	for districts with	400,001 -	and over ADA
10. Reserves	Available reserves for any of the budget year or two subsequent fiscal years are not less than the following percentages or amounts as applied to total expenditures, transfers out and other financing uses[2]:			
	the greater of 5% or $50,000[3]	for districts with	0 -	300 ADA
	the greater of 4% or $50,000[3]	for districts with	301 -	1,000 ADA
	3%	for districts with	1,001 -	30,000 ADA
	2%	for districts with	30,001 -	400,000 ADA
	1%	for districts with	400,001 -	and over ADA

Supplemental Information

Provide supplemental information as follows:

	Provide methodology and assumptions used to estimate ADA, enrollment, revenues, expenditures, reserves and fund balance, and multiyear commitments (including cost-of-living adjustments). Provide information on additional indicators as requested.
S1. Contingent Liabilities	Identify any known or contingent liabilities from financial or program audits, state compliance reviews, litigation, etc., that may impact the budget.
S2. Use of One-time Revenues for Ongoing Expenditures	Identify any ongoing general fund expenditures in excess of one percent of the total general fund expenditures that are funded with one-time resources in the budget year, and explain how the one-time resources will be replaced to continue funding the ongoing expenditures in the following years.
S3. Use of Ongoing Revenues for One-time Expenditures	Identify any large non-recurring general fund expenditures that are funded with ongoing general fund revenues.
S4. Contingent Revenues	Identify projected revenues for any of the budget year or two subsequent fiscal years that are contingent on reauthorization by the local government, special legislation, or other definitive act, e.g. parcel taxes. If any of these revenues are dedicated for ongoing expenses, explain how the revenues will be replaced or the expenditures reduced.
S5. Contributions	Identify projected contributions from the unrestricted general fund to restricted programs in the general fund for any of the budget year or two subsequent fiscal years. Provide an explanation if contributions have changed by more than ten percent from prior year amounts. Explanation should include whether contributions are ongoing or one-time in nature. Identify projected transfers to or from the general fund to cover operating deficits in either the general fund or any other fund for any of the budget year or two subsequent fiscal years. Provide an explanation if transfers have changed by more than ten percent from prior year amounts. Explanation should include whether transfers are ongoing or one-time in nature. Estimate the impact of any capital projects on the general fund operational budget.
S6. Long-term Commitments	Identify all existing multiyear commitments and their annual required payment, and all new multiyear commitments and their annual fiscal impact. Also identify continuing and new multiyear debt agreements and new programs. Compare the increase in long-term commitments to the projected increase in ongoing revenues and explain how these commitments will be funded in future years.

Supplemental Information

Provide supplemental information as

S7. Unfunded Liabilities	Estimate the unfunded liability for post employment benefits based on an actuarial study, if required, or other method; and identify the estimated or required annual contribution and how the costs are accounted for (pay as you go, amortized over a specific period, etc.). Estimate the unfunded liability for any other self-insured benefits programs (e.g. workers compensation), based on an actuarial study, if required, or other method; and identify the estimated or required annual contribution and how the costs are accounted for (pay as you go, amortized over a specific period, etc.).
S8. Status of Labor Agreements	Analyze the status of employee labor agreements. Identify new labor agreements, as well as new commitments provided as part of previously ratified multiyear agreements; and include all contracts, including all administrator contracts (and including all compensation). For new agreements, indicate the date of the required board meeting. Compare the increase in new commitments to the projected increase in ongoing revenues and explain how these commitments will be funded in future years. If salary and benefit negotiations are not finalized at budget adoption, upon settlement with certificated or classified staff: • The school district must determine the cost of the settlement, including salaries, benefits, and any other agreements that change costs, and provide the county office of education with an analysis of the cost of the settlement and its impact on the operating budget. • The county superintendent shall review the analysis relative to the criteria and standards and may provide written comments to the president of the district governing board and superintendent.

Notes

1. Percentage levels equate to a rate of deficit spending which would eliminate recommended reserves for economic uncertainties over a three-year period.
2. An Administrative Unit of Special Education Local Plan Area may exclude the distribution of revenues to its participating members.
3. Dollar thresholds to be adjusted annually by the prior year statutory cost of living adjustment (Education Code Section 42238), rounded to the nearest thousand.

Appendix B

Criteria & Standards for Reviewing County and School District Interim Reports

Criteria and Standards
County Offices of Education – Interim Reports

Criterion Standard

(Deviations from the standards must be explained and may affect your interim certification.)

	A qualified certification indicates that, based on current projections, the county office of education may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. A negative certification indicates that, based on current projections, the county office of education will be unable to meet its financial obligations for the remainder of the fiscal year or subsequent fiscal year.			
1. Fund and Cash Balances	Projected county school service fund (CSSF) balances will be positive at the end of each of the current year and two subsequent fiscal years, and the projected CSSF cash balance will be positive at the end of the current fiscal year.			
2. Reserves	Available reserves[1] for each of the current year and two subsequent fiscal years are not less than the following percentages as applied to total expenditures, transfers out and other financing uses[2]:			
	the greater of 5% or $50,000[3]	for counties with total expenditures, transfers out other financing uses of	Less Than	$4,421,000
	the greater of 4% or $200,000[3]	“	$4,421,000 -	$11,051,999
	the greater of 3% or $400,000[3]	“	$11,052,000 -	$49,734,000
	the greater of 2% or $1,350,000[3]	“	Over	$49,734,000
3. Deficit Spending	Deficit spending (revenues plus transfers in and other financing sources, less expenditures, transfers out and other financing uses) resulting in a negative amount, as a percentage of total expenditures, transfers out and other financing uses[2], does not exceed the following absolute percentage levels[4] in any of the current year or two subsequent fiscal years:			
	1.7%	for counties with total expenditures, transfers out and other financing uses of	Less Than	$4,421,000
	1.3%	“	$4,421,000 -	$11,051,999
	1.0%	“	$11,052,000 -	$49,734,000
	0.7%	“	Over	$49,734,000

Criterion	Standard
4. Average Daily Attendance	Projected countywide (*Education Code* Section 1205) average daily attendance (ADA) has not changed by more than two percent since budget adoption[5]. Projected average daily attendance (ADA) for county-operated programs has not changed by more than two percent in any of the current year or two subsequent fiscal years, since budget adoption[5].
5. Revenue Limit	Projected total revenue limit, for any of the current year or two subsequent fiscal years, has not changed by more than two percent since budget adoption[5].
6. Salaries and Benefits	Projected ratio of total salaries and benefits to total CSSF expenditures (excluding transfers out and other financing uses) for any of the current year or two subsequent fiscal years has not changed by more than two percent from the historical average ratio from the three prior fiscal years.
7. Other Revenues and Expenditures	Projected operating revenues and expenditures by major object category, for any of the current year or two subsequent fiscal years, have not changed by more than five percent since budget adoption[5].
8. Facilities Maintenance	Identify changes that have occurred since budget adoption[5] in the projected contributions for facilities maintenance funding as required pursuant to *Education Code* sections 17070.75 and 17584.

Supplemental Information

Provide supplemental information as follows:

	Provide methodology and assumptions used to estimate ADA, enrollment, revenues, expenditures, reserves and fund balance, and multiyear commitments (including cost-of-living adjustments). Provide information on additional indicators as requested.
S1. Contingent Liabilities	Identify any known or contingent liabilities from financial or program audits, state compliance reviews, litigation, etc., that have occurred since budget adoption that may impact the budget.
S2. Use of One-Time Revenues for Ongoing Expenditures	Projected use of one-time revenues for ongoing county school service fund (CSSF) expenditures has not changed by more than five percent since budget adoption[6].
S3. Contingent Revenues	Identify projected revenues for any of the current year or two subsequent fiscal years that are contingent on reauthorization by the local government, special legislation, or other definitive act, e.g. parcel taxes. If any of these revenues are dedicated for ongoing expenses, explain how the revenues will be replaced or the expenditures reduced.
S4. Contributions	Projected contributions from the unrestricted CSSF to restricted programs in the CSSF for any of the current year or two subsequent fiscal years have not changed by more than five percent since budget adoption[1]. Projected transfers to or from the CSSF to cover operating deficits in either the CSSF or any other fund for any of the current year or two subsequent fiscal years have not changed by more than five percent since budget adoption[1]. Identify capital project cost overruns that have occurred since budget adoption[1] that may impact the CSSF budget.
S5. Long-Term Commitments	Identify all existing multiyear commitments and their annual required payment, and all new multiyear commitments and their annual fiscal impact. Also identify continuing and new multiyear debt agreements and new programs. Compare the increase in long-term commitments to the projected increase in ongoing revenues, and explain how these commitments will be funded in future years.
S6. Unfunded Liabilities	Identify any changes in estimates for unfunded liabilities since budget adoption[1], and indicate whether the changes are the result of a new actuarial report.
S7. Temporary Interfund Borrowings	Identify projected temporary borrowings between funds (refer to *Education Code* Section 42603).

Supplemental Information

Provide supplemental information as follows:

S8. Status of Labor Agreements	Analyze the status of employee labor agreements.
	Identify new labor agreements that have been ratified since budget adoption[1], as well as new commitments provided as part of previously ratified multiyear agreements; and include all contracts, including all administrator contracts (and including all compensation). For new agreements, indicate the date of the required board meeting. Compare the increase in new commitments to the projected increase in ongoing revenues and explain how these commitments will be funded in future years.
	If salary and benefit negotiations are not finalized, upon settlement with the certificated or classified staff:
	• The county office of education must determine the cost of the settlement, including salaries, benefits, and any other agreements that change costs, and provide the California Department of Education (CDE) with an analysis of the cost of the settlement and its impact on the operating budget.
	• The CDE shall review the analysis relative to the criteria and standards and may provide written comments to the president of the governing board and the county superintendent of schools.
S9. Status of Other Funds	Analyze the status of other funds that may have negative fund balances at the end of the current fiscal year. If any other fund has a projected negative fund balance, prepare an interim report and multiyear projection for that fund. Explain plans for how and when the negative fund balance will be addressed.

Notes

1. Available reserves from the Juvenile Court / County Community Schools and Regional Occupational Centers / Programs may be included, up to the applicable percentage of program expenditures. Funds designated as reserves for this purpose continue to be restricted for use only in those programs.
2. An Administrative Unit of a Special Education Local Plan Area may exclude the distribution of revenues to its participating members. Dollar thresholds to be adjusted annually by the prior year statutory cost of living adjustment (Education Code Section 2557), rounded to the nearest thousand.
3. Dollar thresholds to be adjusted annually by the prior year statutory cost of living adjustment (Education Code Section 2557), rounded to the nearest thousand.
4. Percentage levels equate to a rate of deficit spending which would eliminate recommended reserves for economic uncertainties over a three year period.
5. First interim reports will be compared to adopted budgets; second interim reports will be compared to first interim projections.
6. First interim reports will be compared to adopted budgets; second interim reports will be compared to first interim projections.

Criteria and Standards
School District – Interim Reports

Criterion Standard

(Deviations from the standards must be explained and may affect your interim certification.)

	A qualified certification indicates that, based on current projections the school district may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. A negative certification indicates that, based on current projections, the school district will be unable to meet its financial obligations for the remainder of the fiscal year or subsequent fiscal year.			
1. Fund and Cash Balances	Projected general fund balances will be positive at the end of each of the current year and two subsequent fiscal years and the projected general fund cash balance will be positive at the end of the current fiscal year.			
2. Reserves	Available reserves for each of the current year and two subsequent fiscal years are not less than the following percentages or amounts as applied to total expenditures, transfers out and other financing uses[1]:			
	the greater of 5% or $50,000[2]	for districts with	0 -	300 ADA
	the greater of 4% or $50,000[2]	for districts with	301 -	1,000 ADA
	3%	for districts with	1,001 -	30,000 ADA
	2%	for districts with	30,001 -	400,000 ADA
	1%	for districts with	400,001 -	and over ADA
3. Deficit Spending	Deficit spending (revenues plus transfers in and other financing sources, less expenditures, transfers out and other financing uses) resulting in a negative amount, as a percentage of total expenditures, transfers out and other financing uses, does not exceed the following absolute percentage levels[3] in any of the current year or two subsequent fiscal years:			
	1.7%	for districts with	0 -	300 ADA
	1.3%	for districts with	301 -	1,000 ADA
	1.0%	for districts with	1,001 -	30,000 ADA
	0.7%	for districts with	30,001 -	400,000 ADA
	0.3%	for districts with	400,001 -	and over ADA
4. Average Daily Attendance	Funded average daily attendance (ADA) has not changed by more than two percent in any of the current year or two subsequent fiscal years, since budget adoption[4].			
5. Enrollment	Projected enrollment has not changed by more than two percent in any of the current year or two subsequent fiscal years, since budget adoption[4].			
6. ADA to Enrollment	Projected second period ADA to enrollment ratio for any of the current year or two subsequent fiscal years has not increased by more than one half of one percent from the historical average ratio from three prior fiscal years.			

Criterion	Standard
7. Revenue Limit	Projected total revenue limit, for any of the current year or two subsequent fiscal years, has not changed by more than two percent since budget adoption[4].
8. Salaries and Benefits	Projected ratio of total salaries and benefits to total general fund expenditures (excluding transfers out and other financing uses) for any of the current year or two subsequent fiscal years has not changed by more than two percent from the historical average ratio from the three prior fiscal years.
9. Other Revenues and Expenditures	Projected operating revenues and expenditures by major object category, for any of the current year or two subsequent fiscal years, have not changed by more than five percent since budget adoption[4].
10. Facilities Maintenance	Identify changes that have occurred since budget adoption[4] in the projected contributions for facilities maintenance funding as required pursuant to *Education Code* sections 17070.75 and 17584.

Supplemental Information

Provide supplemental information as

	Provide methodology and assumptions used to estimate ADA, Enrollment, Revenues, Expenditures, Reserves and Fund Balance, and Multiyear Commitments (including Cost-of-Living Adjustments). Provide information on additional indicators as requested.
S1. Contingent Liabilities	Identify any known or contingent liabilities from financial or program audits, state compliance reviews, litigation, etc., that have occurred since budget adoption that may impact the budget.
S2. Use of One-Time Revenues for Ongoing Expenditures	Projected use of one-time revenues for ongoing general fund expenditures has not changed by more than five percent since budget adoption[5].
S3. Contingent Revenues	Identify projected revenues for any of the current year or two subsequent fiscal years that are contingent on reauthorization by the local government, special legislation, or other definitive act, e.g. parcel taxes. If any of these revenues are dedicated for ongoing expenses, explain how the revenues will be replaced or the expenditures reduced.
S4. Contributions	Projected contributions from the unrestricted general fund to restricted programs in the general fund for any of the current year or two subsequent fiscal years have not changed by more than five percent since budget adoption[1]. Projected transfers to or from the general fund to cover operating deficits in either the general fund or any other fund for any of the current year or two subsequent fiscal years have not changed by more than five percent since budget adoption[1]. Identify capital project cost overruns that have occurred since budget adoption[1] that may impact the general fund budget.
S5. Long-Term Commitments	Identify all existing multiyear commitments and their annual required payment, and all new multiyear commitments and their annual fiscal impact. Also identify continuing and new multiyear debt agreements and new programs. Compare the increase in long-term commitments to the projected increase in ongoing revenues, and explain how these commitments will be funded in future years.
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S7. Temporary Interfund Borrowings	Identify projected temporary borrowings between funds (refer to *Education Code* Section 42603).

Supplemental Information

Provide supplemental information as follows:

S8. Status of Labor Agreements	Analyze the status of employee labor agreements. Identify new labor agreements that have been ratified since budget adoption[1], as well as new commitments provided as part of previously ratified multiyear agreements; and include all contracts, including all administrator contracts (and including all compensation). For new agreements, indicate the date of the required board meeting. Compare the increase in new commitments to the projected increase in ongoing revenues and explain how these commitments will be funded in future years.
	If salary and benefit negotiations are not finalized, upon settlement with the certificated or classified staff:
	• The school district must determine the cost of the settlement, including salaries, benefits, and any other agreements that change costs and provide the county office of education with an analysis of the cost of the settlement and its impact on the operating budget.
	• The county superintendent shall review the analysis relative to the criteria and standards and may provide written comments to the president of the district governing board and the district superintendent.
S9. Status of Other Funds	Analyze the status of other funds that may have negative fund balances at the end of the current fiscal year. If any other fund has a projected negative fund balance, prepare an interim report and multiyear projection for that fund. Explain plans for how and when the negative fund balance will be addressed.

Notes

1. An Administrative Unit of a Special Education Local Plan Area may exclude the distribution of revenues to its participating members.
2. Dollar thresholds to be adjusted annually by the prior year statutory cost-of-living adjustment (Education Code Section 42238), rounded to the nearest thousand.
3. Percentage levels equate to a rate of deficit spending which would eliminate recommended reserves for economic uncertainties over a three-year period.
4. First interim reports will be compared to adopted budgets; second interim reports will be compared to first interim projections.
5. First interim reports will be compared to adopted budgets; second interim reports will be compared to first interim projections.

Appendix C:

Disclosure of Collective Bargaining Agreement Document

DISCLOSURE OF COLLECTIVE BARGAINING AGREEMENT

In Accordance with AB 1200 (Statutes of 1991, Chapter 1213),
AB 2756 (Statutes of 2004), and G.C. 3547.5

___________________ School District

Name of Bargaining Unit: ________________________________Certificated _____ Classified_____

The proposed agreement covers the period beginning ______________ and ending ___________ and will be acted upon by the Governing Board at its meeting on_______________ .

A. Proposed Change in Compensation

Compensation			Fiscal Impact of Proposed Agreement Current Year 2006-07	 Year 2 2007 - 08	 Year 3 2008 - 09
1.	Step & Column – Increase (Decrease) due to movement plus Any changes due to settlement	Cost (+/-)	$	$	$
		Percent	%	%	%
2.	Salary Schedule – Increase (Decrease)	Cost (+/-)	$	$	$
		Percent	%	%	%
3.	Other Compensation – Increase (Decrease) (Stipends, Bonuses, etc.)	Cost (+/-)	$	$	%
		Percent	%	%	%
		Description			
4.	Statutory Benefits – Increase (Decrease) in STRS, PERS, FICA, WC, UI, Medicare, etc.	Cost (+/-)	$	$	$
		Percent	%	%	%
5.	Health/Welfare Plans – Increase (Decrease)	Cost (+/-)	$	$	$
		Percent	%	%	%
6.	Total Compensation – Increase (Decrease) (Total Lines 1-5)	Cost (+/-)	$	$	$
		Percent	%	%	%
7.	Total Number of Represented Employees				
8.	Total Compensation Cost for <u>Average</u> Employee - Increase (Decrease)	Cost (+/-)	$	$	$
		Percent	%	%	%

Please include comments and explanations as necessary ____________________________
____
____
____
____

B. **Proposed Negotiated Changes in Non-Compensation Items** (class size adjustments, staff development days, teacher prep time, etc.).

C. **What are the specific impacts on instructional and support programs to accommodate the settlement?** Include the impact of non-negotiated change such as staff reductions and program reductions/eliminations.

D. **What contingency language is included in the proposed agreement** (re-openers, etc.)?

E. **Source of Funding for Proposed Agreement**

1. Current Year

2. How will the ongoing cost of the proposed agreement be funded in future years?

3. If multi-year agreement, what is the source of funding, including assumptions used, to fund these obligations in future years? (Remember to include compounding effects in meeting obligations.)

F. Impact of Proposed Agreement on Current Year Unrestricted Reserves

1. State Reserve Standard

a. Total Expenditures, Transfers Out, and Uses (Including Cost of Proposed Agreement)	$
b. State Standard Minimum Reserve Percentage for this District	3%
c. State Standard Minimum Reserve Amount for this District (Line 1 times Line 2 or $50,000 for a district with less than 1,001 ADA)	$

2. Budgeted Unrestricted Reserve (After Impact of Proposed Agreement)

a. General Fund Budgeted Unrestricted Designated for Economic Uncertainties	$
b. General Fund Budgeted Unrestricted Unappropriated Amount	$
c. Special Reserve Fund (207) – Budgeted Designated for Economic Uncertainties	$
d. Special Reserve Fund (207) – Budgeted Unappropriated Amount	$
e. Article XIII-B Fund (241) – Budgeted Designated for Economic Uncertainties	$
f. Article XIII-B Fund (241) – Budgeted Unappropriated Amount	$
g. Total District Budgeted Unrestricted Reserves	$

3. Do unrestricted reserves meet the state standard minimum reserve amount?
   Yes ____ No _____

G. Certification

The information provided in this document summarizes the financial implications of the proposed agreement and is submitted to the Governing Board for public disclosure of the major provisions of the agreement in accordance with the requirements of AB 1200, AB 2756, and G.C. 3547.5.

____ ______________________
District Superintendent (signature) Date

____ ______________________
District Chief Business Official (signature) Date

Impact of Proposed Agreement on Current Year Operating Budget

	(Col. 1) Latest Board-Approved Budget Before Settlement (as of ________)	(Col. 2) Adjustments as a Result of Settlement	(Col. 3) Other Revisions	(Col. 4) Total Impact on Budget (Cols. 1+2+3)
Revenues				
Revenue Limit Sources (8010-8099)				
Remaining Revenues (8100-8799)				
Total Revenues				
Expenditures				
1000 Certificated Salaries				
2000 Classified Salaries				
3000 Employees' Benefits				
4000 Books & Supplies				
5000 Services & Operating Expenses				
6000 Capital Outlay				
7000 Other				
Total Expenditures				
Operating Surplus (Deficit)				
Other Sources and Transfers In				
Other Uses and Transfers Out				
Current Year Increase (Decrease) in Fund Balance		*		
Beginning Balance				
Current-Year Ending Balance				
Components of Ending Balance:				
Reserved Amounts				
Reserved for Economic Uncertainties				
Board Designated Amounts				
Unappropriated Amounts				

*If the total amount of the Adjustment in Col. 2 does not agree with the amount of the Total Compensation Increase in Section A, Line 6, Page 1 (i.e., increase was partially budgeted, there were revenue revisions as reflected in Col. 3., etc.), explain the variance below.

Please include comments and explanations as necessary ______________________________________

____

____

____

____

Appendix D

FCMAT Predictors and Fiscal Health Risk Analysis

FCMAT Predictors of School Agencies Needing Intervention

The following 11 conditions represent those school agency problems most commonly encountered by the Fiscal Crisis and Management Assistance Team (FCMAT). The presence of any one condition is not necessarily an indication of a school agency in trouble. Unavoidable short-term situations such as key administrative vacancies can result in brief and acceptable periods of exposure to one or more of the following conditions. Exceeding acceptable limits of exposure in one or more of the following conditions is often the blueprint for districts nearing or presently in a crisis situation.

1. ***Leadership Breakdown****
   a. Governance crisis**
   b. Ineffective staff recruitment
   c. Board micromanagement and special interest groups influencing boards
   d. Ineffective or no supervision
   e. Litigation against district

2. ***Ineffective Communication****
   a. Staff unrest and morale issues
   b. Absence of communication to educational community**
   c. Lack of interagency cooperation**
   d. Breakdown of internal systems (payroll, position control)

3. ***Collapse of Infrastructure***
   a. Unhealthful and unsafe facilities and sites
   b. Deferred maintenance neglected
   c. Low Budget Priority
   d. Local and state citations ignored
   e. No long-range plan for facility maintenance

4. ***Inadequate Budget Development****
   a. Failure to recognize year-to-year trends, e.g., declining enrollment or deficit spending**
   b. Flawed ADA projections**
   c. Failure to maintain reserves**
   d. Salary and benefits in unrealistic proportions
   e. Insufficient consideration of long-term bargaining agreement effects**
   f. Flawed multi-year projections**
   g. Inaccurate revenue and expenditure estimations**

5. ***Limited Budget Monitoring****
   a. Failure to reconcile ledgers
   b. Poor cash flow analysis and reconciliation**
   c. Inadequate business systems and controls
   d. Inattention to COE data
   e. Failure to review management control reports
   f. Bargaining agreements beyond state COLA**
   g. Lawsuit settlements

6. ***Poor Position Control****
   a. Identification of each position missing
   b. Unauthorized hiring
   c. Budget development process affected
   d. No integration of position control with payroll**

7. ***Ineffective Management Information Systems****
   a. Limited access to timely personnel, payroll, and budget control data and reports**
   b. Inadequate attention to system life cycles
   c. Inadequate communication systems

8. ***Inattention to Categorical Programs****
   a. Escalating general fund encroachment**
   b. Lack of regular monitoring**
   c. Illegal expenditures
   d. Failure to file claims

9. ***Substantial Long-Term Debt Commitments***
   a. Increased costs of employee health benefits+
   b. Certificates of participation
   c. Retiree health benefits for employees and spouse+
   d. Expiring parcel taxes dedicated to ongoing costs

10. ***Human Resource Crisis***
   a. Shortage of staff (administrators, teachers, support, and board)
   b. Teachers and support staff working out of assignment
   c. Students/classrooms without teachers
   d. Administrators coping with daily crisis intervention
   e. Inadequate staff development

11. ***Related Issues of Concern***
   a. Local and state audit exceptions
   b. Disproportionate number of under performing schools
   c. Staff, parent, and student exodus from the school district
   d. Public support for public schools decreasing
   e. Inadequate community participation and communication

* **Highlights the seven conditions consistently found in each district requesting an emergency loan or dealing with a "fiscal crisis."**

** **Represents the 15 conditions that have been found most frequently to indicate fiscal distress and are those referenced in Assembly Bill 2756 (Daucher) and recently amended Education Code Sections 42127 and 42127.6.**

\+ **Indicates an emerging area of significant concern.**

FCMAT's FISCAL HEALTH RISK ANALYSIS

Key Survival Questions

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

1. Deficit Spending* • Is this area acceptable?** .... ***Yes • No

- Is the district spending within their budget in the current year? (Yes / No)
- Has the district controlled deficit spending over multiple years? (Yes / No)
- Is the deficit spending addressed by fund balance, ongoing revenues, or expenditure reductions? (Yes / No)

2. Fund Balance* • Is this area acceptable?** .... ***Yes • No

- Is the district's fund balance consistently above the recommended reserve for economic uncertainty? (Yes / No)
- Is the fund balance increasing due to on-going revenues and/or expenditure reductions? (Yes / No)

3. Reserve for Economic Uncertainty* • Is this area acceptable?** .... ***Yes • No

- Is the district able to maintain its reserve for economic uncertainty in the current and two subsequent years based on current revenue and expenditure trends? (Yes / No)
- Was the district able to maintain its reserve in 2003-04, 2004-05 without using the state flexibility? (Yes / No)
- Is the district aware that the reserves must be restored with the 2005-06 budget? (Yes / No)
- Is there a plan to restore the 2005-06 reserve for economic uncertainty? (Yes / No)

4. Enrollment* • Is this area acceptable?** .... ***Yes • No

- Has the district's enrollment been increasing or stable for multiple years? (Yes / No)
- Is the district's enrollment projection updated at least semiannually? (Yes / No)
- Are staffing adjustments consistent with the enrollment trends? (Yes / No)
- Does the district analyze enrollment and average daily attendance (ADA) data? (Yes / No)
- Does the district track historical data to establish future trends between P-1 and P-2 for projection purposes? (Yes / No)

5. Unrestricted or Undesignated Balance* • Is this area acceptable?** .... ***Yes • No

- Is the district's unrestricted or free balance maintained throughout the year? (Yes / No)
- Does the district consistently have fund balance above the required reserve? (Yes / No)

6. Interfund Borrowing* • Is this area acceptable?** .... ***Yes • No

- Can the district manage its cash flow without interfund borrowing? (Yes / No)
- Is the district repaying the funds within the statutory period? (Yes / No)

7. Bargaining Agreements* • Is this area acceptable?** .... ***Yes • No

- Has the district settled bargaining agreements at or under COLA during the past three years? (Yes / No)
- Did the district conduct a pre-settlement analysis identifying an ongoing revenue source to support the agreement? (Yes / No)
- Did the district correctly identify the related costs above the COLA? (Yes / No)
- Did the district address budget reductions necessary to sustain the total compensation increase? (Yes / No)
- Did the Superintendent and CBO certify the agreement prior to ratification? (Yes / No)
- Is the governing board's action consistent with the superintendent's/CBO's certification? (Yes / No)

8. General Fund* • Is this area acceptable?** .... ***Yes • No

- Is the percentage of the district's general fund unrestricted budget allocated to salaries and benefits at or under the statewide average? (Yes / No)
- Is the district making sure that only authorized restricted dollars pay for permanent staff? (Yes / No)

9. Encroachment* • Is this area acceptable?** .... ***Yes • No

- Is the district aware of the "Contributions to Restricted Programs" in the current year? (Identify cost, programs and funds) (Yes / No)
- Does the district have a reasonable plan to address increased encroachment trends? (Yes / No)
- Does the district manage its encroachment from other funds such as Special Education, Adult, Cafeteria, Child Development, etc.? (Yes / No)

10. Management Information Systems* • Is this area acceptable?** .... ***Yes • No

- Is the district data accurate and timely? (Yes / No)
- Are the county and state reports filed in a timely manner? (Yes / No)
- Are key fiscal reports readily available and understandable? (Yes / No)
- Is the district on the same financial system as the county? (Yes / No)

11. Position Control • *Is this area acceptable?* .... ***Yes • No***

- Is position control integrated with payroll? (Yes / No)
- Does the district control unauthorized hiring? (Yes / No)

12. Budget Monitoring • *Is this area acceptable?* .... ***Yes • No***

- Is there sufficient consideration to the budget, related to long-term bargaining agreements? (Yes / No)
- Are budget revisions completed in a timely manner? (Yes / No)
- Does the district openly discuss the impact of budget revisions at the board level? (Yes / No)
- Are budget revisions made or confirmed by the board at the same time the collective bargaining agreement is ratified? (Yes / No)
- Has the district's long term debt decreased from the prior fiscal year? (Yes / No)
- Has the district identified the repayment sources for the long term debt? (Yes / No)

13. Retiree Health Benefits • *Is this area acceptable?* .... ***Yes • No***

- Has the district completed an actuarial calculation to determine the unfunded liability? (Yes / No)
- Does the district have a plan for addressing the retiree benefits liabilities? (Yes / No)
- Has the district conducted a re-enrollment process to identify eligible retirees?

14. Leadership/Stability • *Is this area acceptable?* .... ***Yes • No***

- Does the district have a Superintendent and/or Chief Business Official that has been with the district over four years? (Yes / No)
- Does the governing board adopt clear and timely policies and support the administration in their implementation of those? (Yes / No)
- Does the governing board refrain from micromanaging? (Yes / No)

15. District Liability • *Is this area acceptable?* .... ***Yes • No***

- Has the district performed the proper legal analysis regarding potential lawsuits that may require the district to maintain increased reserve levels? (Yes / No)
- Has the district set up contingent liabilities for anticipated settlements, legal fees, etc? (Yes / No)

16. Charter Schools • *Is this area acceptable?* .... ***Yes • No***

- Has the charter school received an independent audit reflecting findings that may impact the fiscal certification of the authorizing agency? (Yes / No)
- Has the charter school been revoked? (Yes / No)
- Has an involuntary bankruptcy petition been filed? (Yes / No)

17. Audit Report • *Is this area acceptable?* .... ***Yes • No***

- Did the district receive an audit report with material findings? (Yes / No)
- Can the audit findings be addressed without impacting the district's fiscal health? (Yes / No)

18. Facilities • Is this area acceptable? .... ***Yes • No***

- Has the district passed a general obligation bond? (Yes / No)
- Has the district met the audit and reporting requirements of Proposition 39? (Yes / No)
- Is the district participating in the state's School Facilities Program? (Yes / No)
- Does the district have sufficient personnel to properly track and account for facility-related projects? (Yes / No)
- Does the district have surplus property that may be sold or used for lease revenues? (Yes / No)
- Are there other potential statutory options? (Yes / No)
  - *Joint Use: Can the district enter into a joint use agreement with some entities without declaring the property surplus and without bidding?*
  - *Joint Occupancy: The Education Code provides for a joint venture that can authorize private development of district property that will result in some educational use.*
- Does the district have a Facilities Master Plan that was completed or updated in the last two years? (Yes / No)

RISK ANALYSIS

Total the number of areas that were not acceptable ("No" Responses).
Use the key below to determine the level of risk to the district's fiscal health.

0 – 3	4 – 6	7 – 10	11 – 18
Low	Moderate	High	Extremely High

Total "No" Responses

Rev. 5/16/06

Appendix E

Unfunded Liabilities

A Summary Report to the CCSESA Board of Directors by BASC

October 16, 2005

Unfunded Liabilities

A Summary Report to the CCSESA Board of Directors by BASC

October 16, 2005

Prepared by: BASC GASB 45 Working Group

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“Unfunded liabilities” is a popular term often thrown about in the media in reference to the fiscal health of the Social Security Administration, major corporations, and even local governmental agencies, such as the city of San Diego. However, what exactly are “unfunded liabilities”? An accountant might define them as an actuarial calculation of future liabilities less net assets designated against that liability. In a broader sense one might consider them future obligations of an agency for which current reserves have not been set aside. BASC has prepared the following short report for the CCSESA Board of Directors to brief the Board on its growing impact to the fiscal health of California K-12 school districts.

Overview

The following bullet format is intended to highlight key points. For additional information and discussion of topics, we have included several appendices.

- Unfunded liabilities may include a variety of obligations, but the most common are post employment benefits, such as retiree health; accrued leave entitlements; capital leases; inadequately funded self-insured programs, such as workers' compensation or health and welfare plans; early retirement incentives; and arguably multi-year commitments secured by plant assets, such as certificates of participation.

- Pension plan obligations are also a common unfunded liability incurred by governmental organizations. However California school district employees generally participate in CalSTRS and CalPERS and thus are indirectly shielded from these unfunded liabilities by these agencies. School agencies are impacted by adjusted employer contribution rates that rise or decline based upon the overall funding status of those plans. Further, some agencies may have alternate retirement systems, in lieu of social security, and in these cases the district would also risk exposure to unfunded liability.

- Unfunded liabilities may impose a draw on current resources of school districts, since, by definition, they do not have adequate reserves / assets to fund their associated expenditures.

- Unfunded liabilities may also lie dormant and not immediately draw on the general funds of school districts. For example, an under-funded self-insured worker’s compensation program may have sufficient reserves to cover current year commitments, but not have sufficient funds to pay for the on-going care of seriously injured workers into future years. Such a situation would obligate future budget years for the commitments of today.

- Most agencies pay for unfunded liabilities using a “pay-as-you-go” methodology, committing only those current resources necessary to pay the liabilities that will come due in the current budget year.

- Full funding of a liability would require the agency to fund not only the current portion of the liability but also fund an actuarially determined amount to offset liabilities incurred, but not yet called due.

Current Oversight of K-12 School Districts

California currently has the outline of some basic controls that attempt to report and disclose unfunded liabilities:

- The newly adopted Criteria and Standards (Appendix F) require all school districts to estimate at budget adoption all unfunded post-employment benefits as well as the unfunded portion of any self-insured benefits program. Changes to these unfunded liabilities are disclosed at interim reporting periods. In addition districts disclose all long-term commitments and identify their funding streams.

- AB 2756 (Daucher) (Appendix G) requires all school districts to provide copies of any reports "showing fiscal distress" to the County Superintendent of Schools. BASC concludes that any actuarial report showing an unfunded liability would be included in this definition.

- FCMAT predictors of fiscal intervention (Appendix H) identify substantial long-term obligations as one of the 11 most common conditions of school agencies needing intervention encountered by FCMAT. However it is not one of the 15 conditions referenced by AB2756 nor is it one of the seven common characteristics of emergency loan districts.

What Oversight is Missing?

While some information is available to oversight agencies, there are several weaknesses in the current system. The following bullets identify areas that BASC feels could easily be strengthened:

- GASB 45 will require actuarial studies to determine the liability for post-employment benefits; however GASB 45 does not carry force of law and education code does not require any actuarial studies. Education Code 42140 (Appendix J) previously required disclosure of the liability for retiree benefits if offered beyond the age of 65; however this code become inoperative January 1, 2005 when repealed by AB 2855 (as an unfunded mandate).

- There is no requirement for a district to develop a plan to address their unfunded liabilities once identified by an actuarial study. Thus there is no mechanism for oversight agencies to evaluate the fiscal impact of the actuarial study.

- Current law (Education Code 42133 – Appendix K) dictates that qualified or negative districts may not issue non-voter approved debt, such as certificates of participation, unless the County Superintendent determines that repayment of the debt is probable. No education code addresses the review of other long-term obligations, such OPEB bonds or pension obligation bonds, by a reviewing agency.

Appendix A

Unfunded Liabilities
Brief Fiscal Oversight Discussion

In general, the education code calls for County Offices of Education to evaluate the fiscal health of school districts for the current year and two subsequent years. While no code prohibits a COE from looking further into the future, the lack of reliable multi-year projections makes this a difficult task that produces unreliable results.

To the extent that a district reports large unfunded liabilities and fails to enact a plan to reduce that obligation, a COE may find itself with little recourse other than the "bully pulpit" -- should that LEA be substantially reserved and able to meet all of its current obligations.

COEs must also consider whether or not a district's attempt to fund its future liabilities has impaired its current ability to operate. In the event that full funding of future obligations contributes to an LEAs economic uncertainty reserve falling below criteria and standards minimums, the LEA and the COE will be confronted with a lesser of two evils: a) fully fund the future liabilities and become qualified or b) underfund future liabilities and remain currently viable, with the hope of catching up in the future. Neither option is desirable, but historically most districts have chosen "option b." Can COE's continue to allow this? Or should they evaluate a district's financial position with the assumption that the district fully funded its obligation? How will a COE know what that obligation is?

It seems apparent that COEs will need access to periodic actuarial studies of unfunded LEA liabilities so that COEs may look at the composite fiscal health of the district and ascertain its impact on current operations.

Appendix B

Funding "Unfunded Liabilities"

One issue that is not as clear as it might initially seem is the process of setting aside funds to cover unfunded liabilities. One school of thought would require a school district to set aside an actuarially determined amount that would gradually move the district to a fully funded position. This is certainly prudent; however it must be remembered that actuarial studies are only as good as the assumptions they make. Minor changes in some actuarial assumptions can create significant variations in the calculated unfunded liability. The following table shows the funding history of CalPERS main retirement fund.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Liability	Funded Ratio
6/30/03	$158,596	$180,922	$22,326	87.7%
6/30/02	156,067	163,961	7,894	95.2
6/30/01	166,860	149,155	(17,705)	111.9
6/30/00	162,439	135,970	(26,469)	119.5
6/30/99	148,605	115,748	(32,857)	128.4

Note how in June of 1999, the retirement fund was over-funded at a ratio of 128.4%. However, four years later the fund was standing at 87.7%. One significant factor in the decline of the funded ratio was CalPERS' return on investments. As the rates of return fluctuate, so does the unfunded liability.

Since unfunded liabilities, of the pension / retiree benefit nature, can change relatively quickly, school districts must evaluate their contributions to cover these liabilities in the context of their overall fiscal situation. For example, it is clear that a healthy district with less than 50% of its retiree health benefit liability covered, should make actuarial contributions to shore up its long-term fiscal health. However, a district that has minimal reserves for economic uncertainties and has 90% of its long-term liability funded may find that additional actuarial contributions are jeopardizing its current financial health.

Contributions to cover unfunded liabilities clearly need to be evaluated in the context of the whole fiscal health of the school district. A plan of action by the district, based upon a valid actuarial study, and subject to review of an oversight agency seems to be a proper mix giving local control to school boards, but not allowing neglect of long-term commitments.

Appendix C

Long-term Commitments

Some liabilities that are long-term and unfunded are of less immediate concern than others. Long term loans, such as capital leases and certificates of participation, are accompanied by a known, calculated amount of debt. This debt is finite in length, not on-going, and predictable from year to year, in the form of an annual predetermined payment.

In this respect, the debt is known and manageable. These debts are included on the annual financial statements and disclosed on the Criteria and Standards forms. While these debts do in fact pose a burden on current resources, they are of a different class from many other unfunded liabilities such as retiree health benefits. Retiree health benefits represent an unfunded liability that is generally on-going and difficult to predict.

Historically, our school districts have done a good job at reporting their stable, and known, unfunded obligations. In fact the long-term liabilities section of the Government-wide reporting area of the annual financial statements has specific object codes that identify COPs Payable, Capital Leases Payable, Other Post-Employment Benefits Payable and other similar liabilities.

It is the other grouping of unknown, volatile liabilities that deserves our current attention.

Appendix D

Accrued Leave Entitlements / Compensated Absences

Compensated absences are obligations to employees for leave entitlements that have accrued within school district policies. Most typical of these is vacation. School districts report this data annually as part of their year-end closing process. County Offices typically have the opportunity to review this data and evaluate its impact. This liability often can be reduced simply by having board policies requiring employees to use up excessive leave accumulations. On a budgetary basis, an annual salary has already been budgeted for the employee, so the only fiscal impact to the agency is loss of work productivity. In some cases, however, employees may be unable to take their leave, or substitutes may be necessary in which case net savings are reduced.

The liability for compensated absences is generally not of as much concern as open-ended liabilities such as retiree health benefits. Compensated absences will be paid out over time. Typically, it is not the liability as a whole that causes problems, but rather the excess liability of a single or small group of individuals. When this single individual leaves the organization, the total sum for that individual will be due. For highly compensated individuals these amounts can be substantial, especially for small school districts.

These amounts currently are tracked by year-end financial statements in the aggregate. Most agencies do not have any funds set aside to offset this liability, as most of it will be paid out within a regular budget year. Annual disclosure, review by oversight agencies and board policy limiting the maximum accrual of leave time are prudent steps that can control the risk of this unfunded liability.

Appendix E

Declining Enrollment Scenario

Declining Enrollment with Unfunded Retiree Health Benefits

Many districts offer retiree health benefits. In fact based upon the 2003-2004 J-90 data 65% of LEAs reported offering some form of retiree benefit. Most LEAs are on the pay-as-you-go methodology or stand somewhere less than fully funded with regard to this liability.

Declining ADA districts that have not fully funded their retiree benefits will face certain fiscal hardship. The district will not be in a position to reduce the liability as it will be struggling with fewer resources to maintain current services. Employees will become less and less able to cover for their co-workers as fewer employees remain behind to pay the benefits of past employees. With neither district nor employees able to pay for the encroaching obligation, fiscal hardship will be the inevitable outcome.

Appendix F

Other Post Employment Benefit Bonds

Once school districts determine their unfunded accrued actuarial liability (UAAL), they will begin to look for ways to fund that obligation. One choice that districts may consider is an OPEB bond (Other Post Employment Benefits bond). While no OPEB bond has yet been issued in a California school district, we can imagine their structure would be something akin to pension obligation bonds that dot the market.

A bond would typically be issued by the district to cover its unfunded accrued actuarial liability, and possibly some current portions of that debt in addition to the UAAL. The district would be looking to place those funds in an interest earning account – an account that generated a greater return than that which the district must pay on its OPEB bond.

Since the OPEB bond is not likely to be tax-exempt, as pension obligation bonds are not, the rate of interest that an LEA enjoys will not be as low as it would enjoy on tax-exempt issuances. Accordingly LEA's will be obligated to chase higher yields.

In order for the funds to off-set the GASB 45 UAAL the district would need to deposit the proceeds of that OPEB bond into an irrevocable trust.

The district would guarantee the OPEB bond with its general fund; in fact the payments on the bond would come from the LEA's general fund.

If the bond issuance were able to be structured as non-voter approved debt, and the school district were in a positive fiscal position, *there is no AB1200 fiscal oversight of that transaction.*

Current law only obligates qualified and negative districts to disclose non-voter debt to COEs prior to issuance. In these cases the LEA is prohibited from issuing the debt unless the COE determines that the repayment is probable.

It is possible under current circumstances, that an LEA may be able to obligate its general fund to 30 years of payments without disclosure or review by an oversight agency.

Appendix G

Oversight of Investments

As noted in Appendix F, circumstances will drive LEAs to seek certain targeted yields. It won't be only OPEB (Other Post-Employment Benefit) bonds, but also general actuarial assumptions that will have an effect on the behavior of districts. Actuaries will initially estimate an expected rate of return on district assets that are accumulated to offset unfunded liabilities. However, as a reliable history is determined, actuarial assumptions on investment rates of return will move to match the actual trend of the investment returns.

The lower the rates of return, the lower the long-term projected assets will be, and consequently, the higher the unfunded liabilities will be. Conversely, higher rates of return, will project out to higher long-term assets, and thus off-setting more liability and leaving less exposure.

Naturally agencies will be drawn to seek long-term rates of returns that match the long-term exposure their unfunded liabilities bring. Unfortunately as reward grows, so does risk. Government Code 56320 reads:

> Notwithstanding Section 53601 or 53635, the governing body of a local agency may invest funds designated for the payment of employee retiree health benefits in any form or type of investment deemed prudent by the governing body pursuant to Section 53622.

Section 53622 calls for the governing board to "… diversify the investments of the funds so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so."

There are no further limitations imposed on the local agency by these code sections.

School districts previously were required to report the standing of their investments quarterly by Government Code section 53646; however this code was recently changed from "shall" to "may" (AB 2853 – Chapter 889 Statutes of 2004).

Funds invested by local agencies pursuant to Government Code 53620 currently would be outside the radar of review agencies.

Appendix H

Excerpt from Newly Adopted School District Criteria and Standards

S1.	Contingent Liabilities	Identify any known or contingent liabilities from financial or program audits, state compliance reviews, litigation, etc., that may impact the budget.
S2.	Use of One-time Revenues for Ongoing Expenditures	Identify any ongoing general fund expenditures in excess of one percent of the total general fund expenditures that are funded with one-time resources in the budget year, and explain how the one-time resources will be replaced to continue funding the ongoing expenditures in the following years.
S3.	Use of Ongoing Revenues for One-time Expenditures	Identify any large non-recurring general fund expenditures that are funded with ongoing general fund revenues.
S4.	Contingent Revenues	Identify projected revenues for any of the budget year or two subsequent fiscal years that are contingent on reauthorization by the local government, special legislation, or other definitive act, e.g. parcel taxes. If any of these revenues are dedicated for ongoing expenses, explain how the revenues will be replaced or the expenditures reduced.
S5.	Contributions	Identify projected contributions from the unrestricted general fund to restricted programs in the general fund for any of the budget year or two subsequent fiscal years. Provide an explanation if contributions have changed by more than ten percent from prior year amounts. Explanation should include whether contributions are ongoing or one-time in nature. Identify projected transfers to or from the general fund to cover operating deficits in either the general fund or any other fund for any of the budget year or two subsequent fiscal years. Provide an explanation if transfers have changed by more than ten percent from prior year amounts. Explanation should include whether transfers are ongoing or one-time in nature. Estimate the impact of any capital projects on the general fund operational budget.
S6.	Long-term Commitments	Identify all existing multiyear commitments and their annual required payment, and all new multiyear commitments and their annual fiscal impact. Also identify continuing and new multiyear debt agreements and new programs. Compare the increase in long-term commitments to the projected increase in ongoing revenues, and explain how these commitments will be funded in future years.

S7. Unfunded Liabilities	Estimate the unfunded liability for post employment benefits based on an actuarial study, if required, or other method; and identify the estimated or required annual contribution and how the costs are accounted for (pay as you go, amortized over a specific period, etc.). Estimate the unfunded liability for any other self-insured benefits programs (e.g. workers compensation), based on an actuarial study, if required, or other method; and identify the estimated or required annual contribution and how the costs are accounted for (pay as you go, amortized over a specific period, etc.).
S8. Status of Labor Agreements	Analyze the status of employee labor agreements. Identify new labor agreements, as well as new commitments provided as part of previously ratified multiyear agreements; and include all contracts, including all administrator contracts (and including all compensation). For new agreements, indicate the date of the required board meeting. Compare the increase in new commitments to the projected increase in ongoing revenues, and explain how these commitments will be funded in future years. If salary and benefit negotiations are not finalized at budget adoption, upon settlement with certificated or classified staff: ❖ The school district must determine the cost of the settlement, including salaries, benefits, and any other agreements that change costs, and provide the county office of education with an analysis of the cost of the settlement and its impact on the operating budget. ❖ The county superintendent shall review the analysis relative to the criteria and standards, and may provide written comments to the president of the district governing board and superintendent.

Appendix J

Excerpt from AB 2756 (Daucher)

Review of Reports that Evidence Fiscal Distress

42127.6. (a) (1) A school district shall provide the county superintendent of schools with a copy of a study, report, evaluation, or audit that was commissioned by the district, the county superintendent, the Superintendent of Public Instruction, and state control agencies and that contains evidence that the school district is showing fiscal distress under the standards and criteria adopted in Section 33127, or a report on the school district by the County Office Fiscal Crisis and Management Assistance Team or any regional team created pursuant to subdivision (i) of Section 42127.8. The county superintendent shall review and consider studies, reports, evaluations, or audits of the school district that contain evidence that the school district is demonstrating fiscal distress under the standards and criteria adopted in Section 33127 or that contain a finding by an external reviewer that more than three of the 15 most common predictors of a school district needing intervention, as determined by the County Office Fiscal Crisis and Management Assistance Team, are present….

Appendix K

FCMAT Predictors

The following 11 conditions represent those school agency problems most commonly encountered by the Fiscal Crisis and Management Assistance Team (FCMAT). The presence of any one condition is not necessarily an indication of a school agency in trouble. Unavoidable short-term situations such as key administrative vacancies can result in brief and acceptable periods of exposure to one or more of the following conditions. Exceeding acceptable limits of exposure in one or more of the following conditions is often the blueprint for districts nearing or presently in a crisis situation.

1. Leadership Breakdown*
a. Governance crisis**
b. Ineffective staff recruitment
c. Board micromanagement and special
interest groups influencing boards
d. Ineffective or no supervision
e. Litigation against district
2. Ineffective Communication*
a. Staff unrest and morale issues
b. Absence of communication to educational community**
c. Lack of interagency cooperation**
d. Breakdown of internal systems (payroll,
position control)
3. Collapse of Infrastructure
a. Unhealthful and unsafe facilities and
sites
b. Deferred maintenance neglected
c. Low Budget Priority
d. Local and state citations ignored
e. No long-range plan for facility maintenance
4. Inadequate Budget Development*
a. Failure to recognize year-to-year trends,
e.g., declining enrollment or deficit
spending**
b. Flawed ADA projections**
c. Failure to maintain reserves**
d. Salary and benefits in unrealistic proportions
e. Insufficient consideration of long-term
bargaining agreement effects**
f. Flawed multi-year projections**
g. Inaccurate revenue and expenditure
estimations**
5. Limited Budget Monitoring*
a. Failure to reconcile ledgers
b. Poor cash flow analysis and reconciliation**
c. Inadequate business systems and controls
d. Inattention to COE data
e. Failure to review management control
reports
f. Bargaining agreements beyond state
COLA**
g. Lawsuit settlements
6. Poor Position Control*
a. Identification of each position missing
b. Unauthorized hiring
c. Budget development process affected
d. No integration of position control with
payroll**
**7. Ineffective Management Information
Systems***
a. Limited access to timely personnel,
payroll, and budget control data and
reports**
b. Inadequate attention to system life
cycles
c. Inadequate communication systems
8. Inattention to Categorical Programs*
a. Escalating general fund encroachment**
b. Lack of regular monitoring**
c. Illegal expenditures
d. Failure to file claims
9. Substantial Long-Term Debt Commitments
a. Increased costs of employee health
benefits+
b. Certificates of participation
c. Retiree health benefits for employees
and spouse+
d. Expiring parcel taxes dedicated to
ongoing costs
10. Human Resource Crisis
a. Shortage of staff (administrators,
teachers, support, and board)
b. Teachers and support staff working out
of assignment
c. Students/classrooms without teachers
d. Administrators coping with daily crisis
intervention
e. Inadequate staff development
11. Related Issues of Concern
a. Local and state audit exceptions
b. Disproportionate number of under
performing schools
c. Staff , parent, and student exodus from
the school district
d. Public support for public schools decreasing
e. Inadequate community participation
and communication

* Highlights the seven conditions consistently found in each district requesting an emergency loan or dealing with a "fiscal crisis."
** Represents the 15 conditions that have been found most frequently to indicate fiscal distress and are those referenced in
Assembly Bill 2756 (Daucher) and recently amended Education Code Sections 42127 and 42127.6.
+ Indicates an emerging area of significant concern.

Appendix L

Education Code 42140

Inoperative Code Previously Requiring Actuarial Studies For Retiree Health Benefits Beyond Age 65

42140. (a) If a school district or county office of education, either individually or as a member of a joint powers agency, provides health and welfare benefits for employees upon their retirement, and those benefits will continue after the employees reach 65 years of age, the superintendent of the school district or county superintendent of schools, as appropriate, annually shall provide information to the governing board of the school district or the county board of education, as appropriate, regarding the estimated accrued but unfunded cost of those benefits. The estimate of cost shall be based upon an actuarial report that incorporates annual fiscal information and is obtained by the superintendent at least every three years. The actuarial report shall be performed by an actuary who is a member of the American Academy of Actuaries. If the school district or county office of education regularly contracts for an actuarial report for other fiscal matters, a separate actuarial report is not required, if the estimate of costs required by this subdivision is separately and clearly set forth in that report.

(b) The cost information required by subdivision (a) and a copy of the actuarial report on which the estimated costs are based shall be presented by the superintendent at a public meeting of the governing board. At that meeting, the governing board shall disclose, as a separate agenda item, whether or not it will reserve a sufficient amount of money in its budget to fund the present value of the health and welfare benefits of existing retirees or the future cost of employees who are eligible for benefits in the current fiscal year, or both.

(c) The governing board annually shall certify to the county superintendent of schools the amount of money, if any, that it has decided to reserve in its budget for the cost of those benefits, and shall submit to the county superintendent of schools any budget revisions that may be necessary to account for that budget reserve.

(d) The county board of education annually shall certify to the Superintendent of Public Instruction the amount of money, if any, that has been reserved in the budget of the county office of education for the cost of those benefits.

(e) This section is inoperative on January 1, 2005.

Appendix M

Education Code 42133

Review of Non-Voter Approved Debt
For Qualified and Negative Districts

42133. (a) A school district that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, certificates of participation, tax anticipation notes, revenue bonds, or any other debt instruments that do not require the approval of the voters of the district, nor may the district cause an information report regarding the debt instrument to be submitted pursuant to subdivision (e) of Section 149 of Title 26 of the United States Code, unless the county superintendent of schools determines, pursuant to criteria established by the Superintendent of Public Instruction, that the district's repayment of that indebtedness is probable. A school district is deemed to have a qualified or negative certification for purposes of this subdivision if, pursuant to this article, it files that certification or the county superintendent of schools classifies the certification for that fiscal year to be qualified or negative.

Appendix N

BASC Report on GASB 45

Retiree Benefits

A Report to the CCSESA Board of Directors by BASC

June 26, 2005

Prepared by: BASC GASB 45 Working Group

As the strain and pressures grow on California's K-12 financial system, the cracks in our system begin to show. One such crack that has drawn increasing scrutiny in recent months is the burden imposed upon the system by retiree health benefits offered through K-12 local education agencies (LEA). Your Business and Administration Steering Committee (BASC) has written this report to brief the Board and CCSESA membership on the matter.

Interesting Data

(information drawn from 2003-04 J-90 data sets provided courtesy of CDE and SSC)

Note: Not all agencies file J-90 reports so the following data is only indicative and not entirely comprehensive. J-90 data is reported for certificated bargaining unit personnel only and therefore does not cover classified nor management staff. The data set for 2003-04 covers 82% of the LEAs (852 districts and COEs) and 99% of the statewide ADA.

- 554 LEAs reported having retiree health benefits in some form up to the age of 65.
- 65,687 certificated FTE staff were reported receiving some form of retiree health benefit.
- 134 LEAs reported having retiree health benefits beyond the age of 65.
- Of those 134 LEAs, 70 reported having at least one certificated retiree receiving lifetime health benefits.
- Of the 65,687 retirees reported receiving retiree health benefits, 40,410 will receive them for life.

Background

Retiree health benefits have been drawn to the front burner of our fiscal oversight responsibilities in large part due to the recent statement issued by Governmental Accounting Standards Board (GASB), Statement 45. GASB Statement 45 covers the procedures for reporting the long-term liabilities associated with retiree health benefit debt. Previously governmental agencies were not obligated to include such future health commitments to their employees in their annual financial statements. It is important not to confuse GASB 45 with the obligation to report liabilities associated with pension debt. One of the important goals of GASB 45 is to report the liabilities of retiree benefit debt in a manner similar to pensions, but these two standards are different.

In the K-12 arena, we historically have been relieved of the responsibilities of managing our employees' pension plans, as this falls in large part to PERS and STRS. As such, on a whole, we are inexperienced in handling long-term debt related to employee benefits. This is an important point to understand; for as we move forward, many of our fiscal oversight systems have not been built for, nor tested against, the evaluation of fiscal impacts of long-term debt on the *current* health of an LEA.

Fiscal Oversight Implications

As guardians of the fiscal integrity of the K-12 system, it is incumbent for County Superintendents and their support teams to have an understanding of how retiree health benefits interact with the current fiscal health of LEAs. Retiree benefits must be evaluated by COEs in their AB1200 responsibilities. Our main concern: *To what extent do retiree benefits command and exhaust resources of the current year*? The overall size of the debt is, in itself, not the primary concern. Governmental agencies, particularly educational entities, have no expectation of expiration as a viable entity. Accordingly, since the agency will theoretically exist in perpetuity, its debt load is only of concern to the extent that it impacts current year resources. Of course, the greater the debt load, the more likely the greater the impact in current year.

A key question that we must answer for ourselves is : *What is a reasonable amount of current resources that should be committed to individuals no longer employed at a LEA*?

> If the expenditures of the general fund in the current year go only to fund the future liability of health benefits for current employees, then this can be viewed and evaluated much like any other employee benefit; i.e. as part of total compensation. County Offices of Education are prepared and experienced with this evaluation process and will adapt easily to this measure.
>
> However if the expenditures of the general fund in the current year pay not only current employee benefits, but also must be used to fund the cost of benefits for employees retired from the system, then in effect, resources available for the current education of students are reduced by the amount of funds directed to cover benefits of retirees. COE's must determine: To what extent is this intrusion on current resources manageable by the LEA? We cannot conclude necessarily that because a burden exists it is unmanageable or undesirable. COEs will need to develop mechanisms by which we measure the impact of long-term debt on current resources and develop a firmer understanding as to when that impact is uniquely burdensome to the on-going fiscal health of the LEA.

BASC is continuing discussions on how we might collect, analyze, and integrate the impact of retiree benefits into our AB1200 reviews.

GASB Statement 45

GASB Statement 45 (and its sister GASB Statement 43) address how we as governmental agencies should report and measure our liabilities associated with post-employment benefits other than those associated with pension plans. For K-12 LEAs, these liabilities do not show up in our familiar budget adoption and interim reports. These budget documents concern themselves with the expenditure of current resources. Usually these liabilities will only be reported as part of the annual audit, when LEAs take the time to report their comprehensive financial statements in a format consistent with governmental standards.

GASB 45 measures the liability associated with retiree health benefits using actuarial studies. Accordingly, the reported value of the liability will only be as good as the underlying assumptions and competence of the actuary creating the report. As COEs, we historically do not have staff with skills in critical evaluation and interpretation of actuarial reports. *Actuarial knowledge is one area where we will need to upgrade our collective skill sets***.**

GASB 45 calls for initially setting the liability for retiree health benefits at zero and slowly recognizing the true amount of debt over a period of time not to exceed 30 years. Thus it is important to understand from a fiscal oversight perspective that the initial values reported will likely be just a fraction of their true long term values. Furthermore, GASB 45 requires evaluating the liability of the health plan as it has historically been implemented, not by the strict interpretation of written documentation (such as collective bargaining agreements). For example, a district that has a cap on retiree health care benefits may view its liability as limited; however if historically that LEA always raises the cap by COLA, then the actuaries will evaluate the debt based upon the historical action. This is prudent from a fiscal perspective, but also means COEs must be careful in their evaluation, as the liability reported is more a theoretical value rather than a strict liability, such as a general obligation bond or certificate of participation.

Setting aside resources (Irrevocable Trusts and Special Reserves)

The GASB 45 actuarial report will establish a value called the Annual Required Contribution (ARC). This reflects a target amount of funding for the LEA to set aside in a given year to cover the outstanding liability. Note there is no actual legal requirement for the funds to be set aside. It simply is a measure of the rate at which the liability will grow. Actual funding of the liability is the domain and responsibility of the LEA.

GASB 45 requires the reporting of the difference between liability accrued and the amounts specifically set aside to offset the future liability. GASB 45 only considers funds to be set aside when they are placed in an irrevocable trust.

Currently the California School Accounting Manual and the Office of Management and Budget Circular A-87 allow funds accrued for retiree benefits to be placed in an irrevocable trust or a special reserve fund. Under GASB 45, funds held in a *special reserve fund* and designated for retiree benefits *will not* reduce the liability associated with the long-term debt; funds held in an *irrevocable trust will* reduce the reported liability.

At first glance it seems appropriate that LEAs should desire placing funds in an irrevocable trust. However there are benefits and drawbacks for both the special reserve fund and the irrevocable trust:

Irrevocable Trust

The trust is valuable when the funds are set aside by collective bargaining agreement and cannot be used for any other purpose. In fact that is the reason for a trust; funds so deposited must be used for the sole purpose of the trust and cannot by removed from the trust for other uses. By using the trust the LEA indicates its commitment to funding the liability, which may result in favorable consideration by bond rating agencies when the LEA seeks future bond ratings. Furthermore funds designated in a trust for retiree health benefits may be available for investment outside the county treasury.

Special Reserve Fund

A special reserve fund may be valuable when there is no contractual obligation to fund the liability. Funds in a special reserve may be re-designated by the Governing Board of an LEA at a future date (however if these funds were accumulated from restricted resources then those funds must be returned and credited back to those programs). This may be particularly useful if the LEA determines that it has over-funded its program at some future date.

Investing Plan Assets

LEAs which have set aside funds in an irrevocable trust for retiree benefits may be eligible to invest those funds under rules much more liberal than those governing typical school district funds (Government Code 56320). This presents another unique challenge to County Superintendents in their fiscal oversight responsibilities. BASC has recognized that how each COE implements and controls local investment decisions is likely not uniform around the state**.** *BASC will be working in the coming months to better understand the applicable laws governing the investment of LEA cash and arrive at a recommended uniform interpretation.*

Many COEs may wish to have all funds remain with the County Treasurer. Such a strategy is fiscally conservative and likely protects the investment very well, but equally limits the rate of return on the investment. While creating short term security, this strategy may be creating long term chaos. The rate at which the liability for retiree health benefits rises will in no small part be attributable to medical inflation rates. These rates have recently been double digit numbers. If plan assets grow annually in the 2-5% range (in accordance with short term investments) but the corresponding liabilities grow annually in the 10-15% range, one quickly understands how it will take more and more *current* resources just to keep the plan funded, to speak nothing of the increased contributions required to fund those employees not yet retired.

Thus it is reasonable to predict that LEAs will start seeking ways to increase their returns on plan assets, and that it may make fiscal sense for County Superintendents to consider allowing / accommodating the strategy. However, COEs likely will need strict rules on how this would work. *COE staff will need to be able to review, if not evaluate, the placement of LEA plan asset investments, skills which most COE staff currently do not possess.*

Vendors

It is not entirely unlikely that several vendors will develop investment vehicles for LEAs to place funds accrued to offset retiree liabilities. It is extremely important for LEAs not to react too quickly and for LEAs to make a deliberate and informed decision. When funds are placed into a trust and invested, these funds are going to be subject to Internal Revenue Codes and we are not yet clear on the full impact. It may be that multi-employer trusts will form under IRS Code Sections 115 or 501(c)(9). The transferability of funds among irrevocable multi-employer trusts is not clear to us. It may be that LEAs are severely limited once they have opted for a plan. *Slow going on adoptions of irrevocable trust plans is encouraged until we can receive proper legal guidance.*

Conclusion and Action

The first financial statements to be filed under GASB 45 for California K-12 LEAs will be those ending June 30, 2008 for LEAs with budgets of $100 million or more. However, the fiscal impact of retiree benefits will not wait until 2008. These impacts are already in play today. In response BASC is undertaking the current actions:

- Working with CDE to better capture long term liability information through state reporting, such as the Criteria and Standards.
- Development of a common understanding on the laws and practices governing the investment of school district funds outside the county treasury.
- Furthering our understanding of GASB 45 and developing / assisting the development of implementation plans with other school service entities and partners.
- Seeking opportunities to expand the knowledge of BASC and our COE fiscal oversight teams with respect to actuarial studies and investments.

The CCSESA Board and staff's continued support of BASC is much appreciated.

Quick Definitions of Common Terminology

ARC - Annual Required Contribution. An actuarially determined value by which the liability of the LEA grows. An LEA is not required to make a contribution equal to the ARC, but if it does so, it will fully fund its accrued liability.

COLA - Cost of Living Adjustment. Used in this document to reflect a general trend in the rise of prices associated with the cost of doing business.

Defined benefit plan - A plan which defines the benefit that the retiree will receive after retirement. The benefit may be a defined level of health care coverage or alternately a defined level of dollar contribution.

Defined contribution plan - A plan which defines how contributions are made to each individual plan members account. The benefits derived are strictly driven by the amount of funds contributed to the plan.

GASB - Governmental Accounting Standards Board. An operating arm of the Financial Accounting Foundation that sets accounting standards for state and local governmental agencies.

Medical inflation rate - A rate that describes the annual increased cost of medical care. The rate typically includes not only increased costs to health care providers but costs associated with using new technologies.

OMB Circular A-87 - Office of Management and Budget Circular A-87 is federal publication governing cost principles for state and local governmental agencies. All federal funds expended must adhere to the principles of A-87.

Other postemployment benefits (OPEB) - Postemployment benefits other than pension benefits. OPEB include healthcare benefits, regardless of the type of plan that provides them, and all postemployment benefits provided separately from a pension plan.

Plan assets - Assets, typically cash and related investments, held in an irrevocable trust for the payment of retire benefits in accordance with the plan.

PERS - Public Employees Retirement System. A pension system for members of California public agencies. Also known as CalPERS.

STRS - State Teachers' Retirement System. A pension system for certificated members of California's education system. Also known as CalSTRS.

Appendix F

CDE Management Advisories

- Management Advisory 92-01, concerning public disclosure of collective bargaining agreements
- Management Advisory 92-04, concerning criteria and standards for temporary borrowing (short-term) debt issuance
- Management Advisory 95-03, concerning implementation of AB 3627 and AB 3141

CALIFORNIA STATE DEPARTMENT OF EDUCATION
721 Capitol Mall; P.O. Box 944272
Sacramento, CA 94244-2720

Bill Honig
Superintendent
of Public Instruction

Management Advisory 92-01

May 15, 1992

To: County and District Superintendents
County and District Board Presidents
Chief Financial Officers

From: Robert W. Agee
Deputy Superintendent for Field Services

Subject: PUBLIC DISCLOSURE OF COLLECTIVE BARGAINING AGREEMENTS

Local educational agencies (LEAs) are now required by AB 1200 (Statutes of 1991, Chapter 1213) to publicly disclose the provisions of all collective bargaining agreements before they enter into a written agreement. This provision ensures that the public is aware of the costs associated with a tentative collective bargaining agreement before it becomes binding on the district or county office of education. The new legislation also requires that the State Superintendent of Public Instruction (SSPI) establish a format for the purpose of satisfying this public disclosure requirement. Government Code Section 3547.5 states:

> **Before a public school employer enters into a written agreement with an exclusive representative covering matters within the scope of representation, the major provisions of the agreement, including, but not limited to, the costs that would be incurred by the public school employer under the agreement for the current and subsequent fiscal years, shall be disclosed at a public meeting of the public school employer in a format established for this purpose by the Superintendent of Public Instruction.**

The intent of the legislation is to ensure that members of the public are informed of the major provisions of a collective bargaining agreement before it becomes binding on the district. **The SSPI is not proposing to mandate a specific form or procedure for the public disclosure; however, he recommends that, at a minimum, the following procedures and format be used by all LEAs in meeting the Government Code Section 3547.5 mandate for public disclosure of collective bargaining agreements.** It should be noted that these procedures and format are only recommendations. County offices of education and school districts have the opportunity to modify and expand them to address issues unique to their own situations.

The SSPI is recommending that the public disclosure include, at a minimum, the following information:

1. Make available to the public a copy of the proposed agreement prior to the day of the public meeting; the number of days the agreement should be made available to the public is determined locally.

2. Prepare a summary of the proposed agreement and distribute it to board members along with a copy of the agreement prior to the day of the public meeting; the number of days the summary should be made available to the public is determined locally. At a minimum, the summary should include the following items:

   a. Major provisions of the agreement that affect compensation. This would include direct increases in salaries, and increased health and welfare (H&W) benefits. Some examples of the types of provisions which should be highlighted include the percent change in the on-schedule salaries; changes in the level of H&W benefits; changes in H&W benefit dollar contributions by the employer; changes in step and column or longevity provisions; changes in overtime, differential, callback and standby pay provisions; changes in teacher or classified staffing ratios; one-time bonuses or off-the-schedule increases, etc.

   b. Other provisions which will result in increased expenditures such as class size reduction or increased staff development days. While these do not equate to an increase in compensation for the employees, they will result in an increased cost to the LEA.

   c. Costs of the proposed agreement categorized into these four components for the current and subsequent fiscal years:

      1 - salaries,
      2 - benefits,
      3 - other compensation, and
      4 - other non-compensation costs

      Clearly indicate the percent increase of total compensation (salaries, benefits, and other compensation provisions) for the average represented employee as a result of the settlement. The approximate cost to the LEA of providing a one percent increase in total compensation should also be presented.

   d. Identify the proposed source(s) of funding for the current and subsequent years and outline the assumptions used to determine that resources will be available to meet the obligations of the proposed settlement.

   e. Identify other major provisions that do not directly affect the LEA's costs, such as binding arbitration, grievance procedures, etc.

The summary should be signed by the superintendent prior to submittal to the board, and signed by the board president after the agreement has been approved.

3. The disclosure item should be listed as an informational item on the agenda. Each LEA is legally responsible for making this information available to the public prior to the board's adoption of any collective bargaining agreement. We strongly recommend that school districts also make such information available to their county offices of education prior to adoption.

The above information may also be used to satisfy the Salary Settlement Notification component of the statewide Criteria and Standards. Three years ago the State Board of Education adopted statewide Criteria and Standards for use in developing and monitoring LEA budgets. Included was a Salary Settlement Notification component very similar to the new public disclosure requirement. Specifically, the Criteria and Standards state that if salary and benefit negotiations for teachers are not finalized at the time the budget is adopted, when they are finalized the school district must determine the cost of the settlement and provide an analysis of the cost of the settlement to the county office of education along with its impact on the operating budget.

The CDE developed the Impact of Salary Settlement Notification Form that LEAs have been using to meet this reporting requirement. The information required in this form is virtually the same as required by the new provisions of AB 1200. Therefore, to reduce duplicative effort and paperwork, the Impact of Salary Settlement Notification form will be eliminated. In its place, LEAs will submit the materials developed to meet the public disclosure requirements of AB 1200.

If you have any questions regarding this information, please call Bill Fong in the Office of School Financial Reports at (916) 327-5289.

NOTICE

THE GUIDANCE IN THIS FISCAL MANAGEMENT ADVISORY IS NOT BINDING ON LOCAL EDUCATION AGENCIES OR OTHER ENTITIES. EXCEPT FOR THE STATUTES, REGULATIONS, AND COURT DECISIONS THAT ARE REFERENCED HEREIN, THIS FISCAL MANAGEMENT ADVISORY IS EXEMPLARY, AND COMPLIANCE WITH IT IS NOT MANDATORY. (See Education Code section 33308.5)

RWA:DC:dc:92-0047

CALIFORNIA STATE DEPARTMENT OF EDUCATION
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Bill Honig
Superintendent
of Public Instruction

MANAGEMENT ADVISORY NO. 92-04

June 17, 1992

TO: County and District Superintendents
County and District Chief Financial Officers

FROM: Robert W. Agee
Deputy Superintendent For Field Services

SUBJECT: Criteria and Standards For Temporary Borrowing (Short-Term) Debt Issuance

This advisory contains criteria and standards for use by the State Superintendent of Public Instruction and county superintendents to review debt instruments proposed by local educational agencies (LEAs) having a qualified or negative certification in either the current or prior fiscal year. Although Education Code Section 42133 applies to both temporary (short-term) and long-term debt, due to pending legal issues this management advisory is limited to temporary borrowing which must be repaid in full out of revenues of the fiscal year in which the borrowing occurs. Examples are Tax Anticipation Notes (TANs), Revenue Anticipation Notes (RANs), and Grant Anticipation Notes (GANs). We will be issuing a separate advisory on long-term debt such as Certificates of Participation (COPs) at a later date. This management advisory is part of a series of advisories regarding the provisions of AB 1200 (Statutes of 1991, Chapter 1213); see Management Advisory 92-03 for details concerning the other major provisions of AB 1200.

The purpose of the criteria and standards is to establish statewide guidelines that will promote a uniform basis for approval or disapproval of debt instruments that do not require the approval of the voters of the district. The criteria and standards affect only those LEAs which have a qualified or negative certification during the current or prior fiscal year, therefore, the implementation of these standards will not affect LEAs which have positive certifications. Application of the criteria and standards should facilitate a productive dialogue between the issuing LEA and the approving agency prior to the LEA incurring the debt.

Education Code sections 42133 (a) and (b) read as follows: "(a) A school district that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, certificates of participation, tax anticipation notes, revenue bonds, or any other debt instruments that do not require the approval of the voters of the district, nor may the district cause an information report regarding the debt instrument to be submitted pursuant to subdivision (e) of Section 149 of Title 26 of the United States Code unless the county superintendent of schools determines, pursuant to criteria established by the Superintendent of Public Instruction, that the district's repayment of that indebtedness is probable. A school district is deemed to have a qualified or negative certification for purposes of this subdivision if, pursuant to this article, it files that certification or the county superintendent of schools classifies the certification for that fiscal year to be qualified or negative.

(b) A county office of education that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, certificates of participation, tax anticipation notes, revenue bonds, or any other debt instruments not requiring the approval of the voters of the district, nor may the county office of education cause an information report regarding the debt instrument to be submitted pursuant to subdivision (e) of Section 149 of Title 26 of the United States Code unless the Superintendent of Public Instruction determines that the repayment of the indebtedness by the county office of education is probable. A county office of education is deemed to have a qualified or negative certification for purposes of this subdivision if, pursuant to the article, it files that certification or the Superintendent of Public Instruction classifies the certification for that fiscal year to qualified or negative. For purposes of this subdivision, "county office of education" includes a school district that is governed by a county board of education."

Temporary Borrowing Debt Issuance

TANs, RANs, and GANs are short-term borrowing instruments used to finance cash flow deficits in anticipation of receiving taxes, other revenues, or grants. Generally, they are issued for 12 months or less and are repaid out of revenues of the fiscal year in which the borrowing occurs.

The keys to determining the probability of debt repayment are a cash flow analysis and an analysis of the LEA's fund balance. These processes should provide the reviewer with assurances that:

- the revenues pledged to repay the note will be received on or prior to the pledge date;
- the amount of the revenues pledged to repay the note are sufficient;
- the note will be repaid in full out of revenues of the fiscal year in which the borrowing occurred;
- the revenues used to repay the note are composed of funding sources which have a high degree of certainty of occurring and in the amount projected.

The cash flow analysis should provide the beginning balance, revenues, expenditures, and ending balance for each month of the fiscal year. The analysis should focus on the unrestricted portion of the General Fund budget as well as any restricted portion of the budget that will impact the unrestricted portion, and should include all the assumptions used. In addition, the LEA should provide the reviewer with trends and composition of revenues, trends and composition of the LEA's expenditures, factors driving those costs, impact of the borrowing, and projected monthly cash balance.

If the repayment provision does not in any way obligate the General Fund, the LEA should perform a similar analysis of the funds or revenues pledged to repay the note.

The Review of the LEA's Cash Flow Analysis

The reviewer should subject each of the LEA's assumptions and projections to a test of reasonableness. This will require the reviewer to examine each assumption and to compare it to what has happened historically and to what is presently occurring. It will also require that the reviewer be familiar with local developments, apportionment schedules, and economic trends at both the state and national level.

After reviewing the trends and composition of both the LEA's revenues and expenditures and the factors affecting them, the reviewer should carefully review the LEA's projected fund balance. If the LEA can meet all of its obligations including repayment of the note and yet maintain a sufficient fund balance then there is a reasonable probability that the LEA will repay its debt.

The two criteria that should be applied to temporary borrowing are: (1) Fund Balance and (2) Cash Flow Analysis. These criteria are the same as those that were adopted by the State Board of Education on July 13, 1990, as part of the criteria for interim financial reports pursuant to Education Code Section 33127.

CRITERIA AND STANDARDS FOR REVIEWING SCHOOL DISTRICT NON-VOTER APPROVED TEMPORARY BORROWING

<u>Criteria</u>	<u>Standards</u>
Cash Flow Analysis	Cash Flow analysis indicates that there will not be a negative cash balance at, or before the end of the fiscal year.
Fund Balance	Expenditures do not exceed revenues, and do not create a negative fund balance.
	Reserve for Economic Uncertainties is not less than the following percentages as applied to total expenditures, transfers out and uses:

the greater of 5% or $50,000	for districts with 0 - 300 ADA
the greater of 4% or $50,000	for districts with 301 - 1,000 ADA
3%	for districts with 1,001 - 30,000 ADA
2%	for districts with 30,001 - 400,000 ADA
1%	for districts with 400,001 and over ADA

CALIFORNIA DEPARTMENT OF EDUCATION
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MANAGEMENT ADVISORY 95-03

January 23, 1995

To: County and District Superintendents
County and District Chief Financial Officers

From: Robert W. Agee, Deputy Superintendent
Field Services Branch

Subject: **IMPLEMENTATION OF AB 3627 AND AB 3141**

AB 3627 (Chapter 1002, Statutes of 1994), authored by Assembly Member Campbell and AB 3141 (Chapter 650, Statutes of 1994) authored by Assembly Member Alpert both became effective January 1, 1995. In combination these two pieces of legislation:

- provide for the development of telecommunication standards
- require more public disclosure of financial information by school districts and county offices of education
- clarify the audit resolution follow-up process
- clarify the law related to the ongoing monitoring and review of school district and county office of education budgets
- facilitate the appointment of trustees and administrators for school districts with emergency loans*

In this advisory we will identify and explain the various changes to existing law. All of the provisions within both AB 3141 and AB 3627 are effective January 1, 1995. The audit resolution follow-up process will affect the 1993-94 fiscal year annual audits.

* Because many of the revisions included in AB 3627 relate specifically to administrative functions of the Superintendent of Public Instruction, with little if any effect on local school districts and county offices of education, these changes will not be discussed in this advisory. If you have questions related to them, please feel free to contact the Office of Financial Accountability and Information Services at (916) 322-1770.

AB 3627 *(Chapter 1002, Statutes of 1994)*

This bill clarifies certain sections of the law related to school district and county office of education budgets, and their ongoing monitoring and review.

County Office Oversight Responsibility

The county superintendent has an ongoing responsibility to monitor the fiscal health of the school districts within the county's jurisdiction, and to take necessary and appropriate action consistent with the law to ensure the districts' solvency. AB 3627 gives the county superintendent more flexibility in determining what actions to take when a district is experiencing financial difficulties. Previously, the law implied that only certain actions were to be taken by a county superintendent as the result of his or her determination that a solvency problem exists within a school district. Under AB 3627 the language has been modified with the intent for the county superintendent to take whatever actions are necessary to move a district toward solvency and to ensure that it meets its financial obligations. *[EC 42127.3(b), 42127.6(a), 42131(b)].*

In addition to the county superintendent's responsibilities outlined above, if at any time during the fiscal year the county superintendent determines that a school district will not be able to meet its financial obligations for the current or subsequent fiscal year, or if a school district has a negative certification, the county superintendent is to take actions to enable the district to meet its financial obligations. Previously, the law spelled out two very specific actions: 1) develop and impose revisions to the district's budget, and 2) stay or rescind any action inconsistent with these revisions. Now added to these specific actions is a provision for the county superintendent to also assist in developing a financial plan to enable the district to meet its future obligations. *[EC 42127.6(e)(3)]*

To clarify any misunderstandings surrounding the law related to ongoing monitoring of budgets, a few sections have been modified to add language that better explains the process. The following provisions show the language ***in bold italics*** that is new:

- If the county superintendent determines that a district will not be able to meet its financial obligations, the district may appeal that determination to the Superintendent of Public Instruction. If the appeal is denied, ***or not filed***, the county superintendent shall take certain actions.
  [EC 42127.6(e)]

- Qualified and negative certifications are assigned ***based on current projections.***
  [EC 42131(a)(1)]

- Copies of qualified and negative certifications, along with a copy of the report submitted to the governing board pursuant to EC 42130 shall be sent ***by the county office of education*** to the State Controller and the Superintendent of Public Instruction. *[EC 42131(a)(2)]*

Audit Resolution Follow-up

Beginning with the 1993-94 audits each county superintendent is responsible for reviewing the audit exceptions of the districts in the county related to attendance, inventory of equipment, internal control, and any miscellaneous items, and determining whether the exceptions have been corrected or have an acceptable plan of correction. *[EC 41020(i)]*

By January 31 of each year, each school district governing board shall review the prior year's annual audit at a public meeting, including audit exceptions, recommendations or findings of any management letter issued by the auditor, and any descriptions or corrective action plans. *[EC 41020.3(a)]*

Once the final audit report has been submitted to the district's governing board and subsequently to the county superintendent, the county superintendent must:

1) review the exceptions, notify the district if there is not a description of the correction, or correction plan, and request the district governing board to provide a description of the correction or plan by March 15 *[EC 41020(j)(1),(2)]*

2) determine the adequacy of the correction or plan; if it is inadequate, the county superintendent shall require the district to revise and resubmit the appropriate portions of the plan. *[EC 41020(j)(3)]*

Each county superintendent certifies to the Superintendent of Public Instruction by May 15 that his/her staff reviewed all audits for the prior fiscal year, that all exceptions the county superintendent was required to review were reviewed, and that all exceptions, except those noted in the certification, have either been corrected or an acceptable plan of correction was submitted to the county superintendent. In addition, the county superintendent shall identify by district, any attendance-related audit exception that had a fiscal impact on state funds, and require the district to submit the appropriate forms to the Superintendent of Public Instruction. *[EC 41020(k)]*

In the subsequent year's audit, the auditor reviews the correction or plan submitted by the district to determine if the exceptions have been resolved. If they have not, then the auditor shall immediately notify the county office of education and the CDE, and restate the exception in the audit report. The CDE may either consult with the district to resolve the exception or require the county superintendent of schools to follow up with the district. *[EC 41020(l)]*

The Superintendent of Public Instruction is responsible for assuring that districts have either corrected or developed a plan of correction for the following:

- Federal and state compliance audit exceptions

- Any exceptions that the county superintendent certified had not been corrected as of May 15

- Any repeat audit exception not assigned to the county superintendent to correct

In addition, the SPI is responsible for assuring that all audit exceptions identified in the audits of the county superintendents are corrected or plan to be corrected. *[EC 41020(m)(1),(2)]*

Beginning with the 1994-95 audits, auditors must categorize audit exceptions to indicate whether it is the initial responsibility of the county superintendent, or the SPI, to follow up and assure correction by the school district. In addition, the Controller is required to annually select a sample of county superintendents and perform a followup of their audit resolution processes. The Controller is to report the results to the SPI and the county superintendents who were reviewed. *[EC 41020(n)]*

More information and advice concerning the above audit follow-up process will be provided in a separate Management Advisory. In the meantime, should you have questions, please contact the Fiscal Policy Division at (916) 322-1645.

AB 3141 ***(Chapter 650, Statutes of 1994)***

This bill requires school districts and county offices of education to publicly disclose certain information that affects their financial status; it also provides for the development of telecommunication standards that support the efficient sharing of business and administrative information.

Public Disclosure

The following public disclosure requirements, with the exception of collective bargaining agreements, apply to county offices of education as well as to school districts.

- Non-voter-approved debt

  Upon the approval by a school district governing board to proceed with the issuance of certificates of participation revenue bonds, the school district must notify the county superintendent and the county auditor. The district superintendent must provide the repayment schedules for the debt obligation and evidence of the district's ability to repay the obligation, to the county auditor, the county superintendent, the governing board, and the public. Within 15 days of receiving the information, the county superintendent and the county auditor may comment publicly to the governing board of the district about the district's ability to repay the debt obligation.
  [EC 17850]

- Fiscal obligations

  1) Health and welfare benefits:

  If a school district, either as an individual district or as a member of a joint powers agency, provides health and welfare benefits for its retired employees beyond the age of 65, the superintendent shall annually provide information to the governing board regarding the estimated accrued but unfunded cost of those benefits. The estimate is to be based on an actuarial report that incorporates annual fiscal information and is obtained by the superintendent at least every three years. The cost information and a copy of the actuarial report are to be presented by the superintendent at a public meeting of the governing board. At that meeting the governing board must disclose, as a separate agenda item, whether or not it will reserve a sufficient amount of money in its budget to fund the present value of the health and welfare benefits of existing retirees or the future cost of employees who are eligible for benefits in the current fiscal year, or both. The governing board must annually certify to the county superintendent the amount of money, if any, that it has decided to reserve in its budget for the cost of those benefits, and shall submit to the county superintendent any budget revisions that may be necessary to account for that budget reserve. *[EC 42140]*

2) Workers' compensation claims

If a district is self-insured for workers' compensation claims, either as an individual district or as a member of a joint powers agency, the district superintendent shall annually provide information to the governing board regarding the estimated accrued but unfunded cost of those claims. The estimate is to be based on an actuarial report obtained at least every three years. The information shall be presented by the superintendent at a public meeting of the governing board, and at that same meeting the board shall disclose, as a separate agenda item, whether or not it will reserve a sufficient amount of money in its budget to fund the present value of the accrued but unpaid workers' compensation claims or if it is otherwise decreasing the amount in its workers' compensation reserve fund. The board will annually certify to the county superintendent the amount of money, if any, that it has decided to reserve in its budget for the cost of the benefits and/or the claims, and submit any necessary budget revisions to account for that reserve.
[EC 42141]

- Collective bargaining agreements

Within 45 days of adopting a collective bargaining agreement, school district superintendents must send the county superintendent any revisions to the district's current year budget that are necessary to fulfill the terms of that agreement. Any additional costs to the school district that may result from the terms of the agreement also shall be reflected in any interim fiscal reports or multiyear fiscal projections.
[EC 42142]

A provision has also been added to Government Code 3540.2 specifying that if a county superintendent so requests, a school district must provide the county superintendent with all information relevant to provide an understanding of the financial impact of any final collective bargaining agreement reached.

Telecommunication Standards

The intent of this section is for the California Department of Education (CDE), in conjunction with county superintendents and others from the educational community, to establish telecommunication standards that support the efficient sharing of school business and administrative information. The standards will allow schools, school districts, county superintendents of schools and the CDE to establish interactive access to such information, reduce reporting requirements, and help local educational agencies in carrying out their financial and administrative responsibilities more effectively. This is to be accomplished without requiring replacement of current hardware and software and without mandating specific proprietary hardware or software purchases. *[EC 10550]*

The standards will be implemented by the existing Fiscal Crisis and Management Assistance Team governing board. The current governing board is made up of ten county superintendents and one representative from the California Department of Education. This board will be supported by a team of people having extensive experience in the development of telecommunications systems and knowledge of the data and system needs of school business and administration. The team is to be operated under the immediate direction and supervision of an appropriate county superintendent of schools selected, in response to an application process, by the Superintendent of Public Instruction (SPI). *[EC 10551(a),(b),(c)]*

The CDE shall convene a committee of volunteers to advise the governing board. Two members shall be appointed by each of the following:

- the president of the California Association of School Business Officials
- the president of the Association of California School Administrators
- the president of the California School Boards Association
- the president of the California Educational Data Processing Association
- the Superintendent of Public Instruction

The committee is to disband as of December 31, 1995.
[EC 10551(d),(e)]

By July 1, 1995, the governing board shall establish telecommunication standards for use by the CDE and county offices of education in purchasing computer hardware or software for school business and administration. The standards shall focus on the ability to process and share financial and administrative information uniformly among the CDE, county offices of education, and school districts, and shall be consistent with other CDE and national standards for telecommunication. The CDE shall distribute the standards to all county superintendents by July 15, 1995, and publish them in the California School Accounting Manual. Any new or replacement financial and administrative data processing or telecommunication equipment purchased by CDE or county superintendents after July 15, 1995 may meet these standards.
[EC 10552(a),(b),(c)]

After the above telecommunication standards are established, each county superintendent shall establish by January 1, 1996, uniform standards for sharing fiscal and administrative information between districts and county offices of education that conform as much as possible to the statewide standards and consider the districts' unique needs. Thereafter, school districts may follow these standards when purchasing or replacing hardware or software for financial and administrative data processing. *[EC 10553(a),(b)]*

An Educational Telecommunication Fund is established, with a maximum of $1 million to be deposited annually, becoming inoperative as of January 1, 2000. The funds will be derived from principal apportionment offsets that result from average daily attendance audit exceptions. The money must be appropriated by the Legislature in the Budget Act, and is to be used for:

- supporting the activities of the administrative team
- assisting districts and counties on a matching basis in purchasing hardware and software
- providing technical assistance through county offices to school districts in implementing the standards

[EC 10554]

By March 15 every year, the governing board shall report to the Legislature on its progress.
[EC 10555]

Community Colleges

AB 3141 specifies that the county superintendent is not responsible for the fiscal oversight of the community colleges in the county, but may perform financial services on behalf of those community colleges.
[EC 1240(j)(4)]

Contacts

Questions regarding this advisory or the provisions of AB 3627 or AB 3141 should be directed to the Office of Financial Accountability and Information Services, at (916) 322-1770.

RWA:PK:J5e

NOTICE

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Appendix G

A Glossary of School Finance Terms

For a glossary with education terms beyond school finance, go to www.edsource.org and click on the "glossary" button.

Academic Performance Index (API)

A number summarizing the performance of a group of students, a school, or a district on the state's standardized tests. A school's number (or API score) is used to rank it among schools of the same type (elementary, middle, high, or small) and among the 100 schools of the same type that are most similar in terms of students served, teacher qualifications, and other factors. (See Standardized Testing and Reporting Program.)

Account Code

A number that classifies sources of revenues or purposes of expenditures in either a school district budget or the reports districts submit to the California Department of Education. The account code classifies expenditures according to the types of items purchased or services obtained and revenues by the general source and type of revenue.

Adequacy

An approach to school funding that begins with the idea that the amount of funding schools receive should be based on some estimate of the cost of achieving the state's educational goals. It tries to answer two questions: How much money would be enough to achieve those goals and where would it best be spent?

Adequate Yearly Progress (AYP)

A collection of performance measures that a state, its school districts, and subpopulations of students within its schools are supposed to meet if the state receives Title I, Part A federal funding. In California, the measures include: (1) specified percentages of students scoring "proficient" or "advanced" on California Standards Tests in English language arts and math; (2) participation of at least 95% of students on those tests; (3) specified Academic Performance Index scores or gains; and for high schools, (4) a specified graduation rate or improvement in the rate. (See No Child Left Behind Act and Title I.)

Adult Education

Classes offered by school districts, community colleges, and other public and private organizations for residents 18 years or older who are not enrolled in a high school. State law requires that certain courses, including citizenship and English, be provided at no charge, while others may carry a fee. Adult education revenues and expenditures must be tracked separately from a school district's general fund.

Apportionments

Funds that federal or state governments distribute to local education agencies or other governmental units according to certain formulas.

Appropriations

Funds set aside or budgeted by the state or local school district boards for a specific time period and specific purpose. The state Legislature and local school boards must vote every year on appropriations.

Assembly Bill (AB) 1200

Legislation passed in 1991 that defined a system of fiscal accountability for school districts and county offices of education to prevent bankruptcy. The law requires districts to do multiyear financial projections; identify sources of funding for substantial cost increases such as employee raises; and make public the cost implications of such increases before approving employee contracts. County offices review district budgets, and the state reviews countywide school districts.

Assessed Value

The value of land, homes, and businesses set by the county assessor for property tax purposes. It is either the appraised value of any newly built or purchased property or, for continuously owned property, the value on March 1, 1975 plus annual increases. These increases, tied to the California Consumer Price Index, may not exceed 2% annually (See Proposition 13).

Average Daily Attendance (ADA)

The total number of days of student attendance divided by the total number of days in the regular school year. A student attending every day would equal one unit of ADA. ADA is not the same as enrollment (See Enrollment.). The state uses a school district's ADA to determine its total general-purpose (revenue limit) funding and some other funding.

Basic Aid

The minimum general-purpose aid guaranteed by the state's constitution for each school district in California. The amount is $120 per pupil (ADA), with a minimum of $2,400 per district for very small districts. In 2003 lawmakers decided that the funding schools receive from categorical programs could satisfy this guarantee.

Basic Aid School District

The historical name for a district in which local property taxes equal or exceed the district's revenue limit. These districts may keep the money from local property taxes and still receive constitutionally guaranteed state basic aid funding.

Benefit Assessment District

See Maintenance Assessment District.

Block Grant
An allotment of money that is the sum of multiple special-purpose funds combined into one. A block grant tends to have fewer restrictions on how the money is spent than did the original, disparate funding streams; and it often combines funds that have similar purposes.

Bond Measure
See General Obligation (G.O.) Bonds.

Bonus/Performance Pay
Extra money for school district employees who perform extra duties or are considered exemplary. In some states, performance pay is being offered as an incentive for teachers to improve their students' performance. In California, both employee pay and benefits are determined by collective bargaining, according to state law.

Budget Act
A constitutionally established, one-year statute for the state's budget appropriations. It is the only bill allowed to have more than one appropriation. The state Constitution requires that it be passed by a two-thirds vote of each house and sent to the governor by June 15 each year. The governor may reduce or delete, but not increase, individual items.

Building Fund
A fund that districts must use only for buildings. The money comes from sources such as bonds and the sale/rental of property.

California Basic Educational Data System (CBEDS)
Reports that contain statistics about schools, teachers, and students. CBEDS reports are collected from each school in the fall.

California Schools Information Services (CSIS)
Under the direction of the Fiscal Crisis and Management Assistance Team, CSIS is the data collection utility responsible for assigning and maintaining the Statewide Student Identifier (SSID) and assisting school districts in state reporting and student records transfer.

California Work Opportunity and Responsibility to Kids (CalWORKs)
A welfare program that gives cash aid and services to eligible needy California families. CalWORKs is a state program that is operated locally by county welfare departments.

CalPERS
See Public Employees' Retirement System (PERS).

CalSTRS
See State Teachers' Retirement System (STRS).

Capital Outlay
Money spent for major physical changes to a school, such as new buildings, renovations, reconstruction, or certain new equipment. These investments in the physical structure of a school are expected to last for a number of years.

Categorical Aid/Categorical Programs
Allocations from the state or federal government that generally fall into three categories: specific programs, specific students, and specific characteristics of school districts. All districts receive categorical aid in varying amounts in addition to the funding they receive for their general education program. In most cases, districts have limits on how they may use these funds.

Certificated/Credentialed Employees
Employees who are required by the state to hold some type of teaching credentials, including most full-time, part-time, substitute and temporary teachers, and most administrators.

Charter School
A public school operated independently under a performance agreement with a school district, a county office of education (COE), or the State Board of Education. Charter schools are funded on a per-pupil basis; freed from most state regulations that apply to school districts and COEs; usually able to hire their own teachers and other staff; and subject to closure if they fail to meet their promises for student outcomes.

Class Size Reduction (CSR)
Incentive programs that provide funding to schools with class sizes of no more than 20 students per teacher. CSR was initiated in the 1996–97 school year for kindergarten through third grade. A separate program supports smaller classes for core academic subjects in ninth grade.

Classified Employees
School employees who are not required to hold teaching credentials. This includes bus drivers, secretaries, custodians, instructional aides, and some management personnel.

Collective Bargaining
A process for establishing a contract between a school district and its employee organizations. Senate Bill 160 (1975) defined the manner and scope of negotiations, and mandated a state regulatory board (See Public Employment Relations Board.).

Con App (Consolidated Application)

The application districts can use to apply for approximately 20 state and federal categorical programs. Most, if not all, districts use the "con app" to secure funding from at least some of the programs on the application. These programs tend to be on similar timelines and applying for them is relatively straightforward. Examples include the federal Title I program and the state School Improvement Program (SIP).

Consolidation

Combining into a single district two or more adjacent elementary or high school districts (See Unification and Unionization).

Consumer Price Index (CPI)

A measure of the average change over a short time in the prices paid for a set of consumer goods and services. Salary adjustments and other costs can be linked to the CPI, which is sometimes used as a factor to measure inflation.

Cost-of-living Adjustment (COLA)

An increase in school funding from the state or federal government to compensate for inflation. In California, the law states that schools should receive a certain COLA based on the Implicit Price Deflator for state and local government purchases of goods and services.

County Office of Education (COE)

The agency that provides educational programs for certain students; business, administrative, and curriculum services to school districts; and financial oversight of districts. These services are affected by the size and type of districts within the county, the location and size of the county, and the students who have special needs that are not met by the districts. Each of California's 58 counties has an office of education.

Deferred Maintenance

Major repairs of buildings and equipment that have been postponed by school districts. Some matching state funds are available to districts that establish a deferred maintenance program for these repairs.

California School Information Services (CSIS)

The California School Information Services is a division of FCMAT and is responsible for developing, maintaining and implementing a data management system that provides for state reporting and student records transfer services in California districts and county offices of education. CSIS assigns and maintains the Statewide Student Identifers (SSID) for regular K-12 students including those in charter schools.

Deficit Factor

The percentage by which an expected allocation of funds to a school district or county office of education is reduced. The state may apply deficit factors to revenue limits and categorical programs when the appropriation is insufficient based on the funding formulas specified by law.

Developer Fees

A charge per square foot on residential and commercial construction within a school district, based on the premise that new construction will lead to additional students. School districts decide whether to levy the fees and at what rate, up to the maximum allowed by law. Proceeds are used to build or renovate schools and for portable classrooms.

Direct Services

Services—including business, attendance, health, guidance, library, and supervision of instruction (K–8 only)—performed without cost by county offices of education for small districts, which are defined as fewer than 901 (elementary), 301 (high school), and 1,501 (unified) students based on ADA.

Economic Impact Aid (EIA)

State categorical funds for districts with concentrations of children who are transient, from low-income families, or need to learn English.

Education Code

The body of law that regulates education in California. Additional regulations affecting education are contained in the California Administrative Code, Titles 5 and 8, the Government Code, and general statutes.

Elementary and Secondary Education Act (ESEA)

The principal federal law affecting K-12 education. The No Child Left Behind Act (NCLB) is the most recent reauthorization of ESEA. (See No Child Left Behind Act.) Enacted in 1965 as part of the war on poverty, ESEA supports the education of the country's poorest children. Congress must reauthorize it every six years.

Encroachment

Spending a local education agency's general-purpose funds on mandated special-purpose programs when the cost of providing the programs exceeds the state or federal funding provided.

English Learner (EL)

Students whose home language is not English and who qualify for extra help. EL students were formerly known as "limited English proficient" (LEP).

Enrollment

A count of the students enrolled in each school and district on a given day in October. The number of pupils enrolled in the school is usually larger than the average daily attendance (ADA) due to factors such as students moving, dropping out, or staying home because of illness (See Average Daily Attendance).

Equalization Aid

Funds occasionally allocated by the Legislature to address perceived inequities by increasing funding to move school districts with lower revenues closer to the statewide average for districts of their size and type.

Expenditures Per Pupil

The amount of money spent on education by a school district or the state, divided by the number of students educated. For most purposes in California, the number of students is determined by average daily attendance (ADA) (See Revenues Per Pupil).

Fiscal Crisis and Management Assistance Team (FCMAT)

A state-funded agency that provides fiscal advice, management assistance, training, and other related school business services, with a particular emphasis on districts facing fiscal insolvency. FCMAT operates from the office of the Kern County Superintendent of Schools and is under contract with the California Department of Education and the governor's office.

Free/Reduced-price Meals (F/RPM)

A federal program to provide food—typically lunch and/or breakfast—for students from low-income families. The number of students participating in the National School Lunch Program is often used as a way to measure the poverty level of a school or district population. The number of children in this program can affect schools' or districts' eligibility for grants or other funding aimed at helping lower-income families. Almost half of California's public school children are eligible for free/reduced-price meals.

Gann Limit

A limit on the amount of tax money that state and local governments, including school districts, can legally spend. California voters approved the late Paul Gann's Proposition 4 in November 1979. The implementing legislation, Senate Bill 1342, minimized the proposition's impact on K–12 education.

General Fund

The primary, legally defined fund used by the state and school districts to differentiate general revenues and expenditures from those placed in other funds for specific uses.

General Obligation Bond (G.O. Bond)

A form of borrowing commonly used to fund school facilities. Local G.O. bonds, financed through an increase in local property taxes, can be used for renovating, reconstructing and building new facilities, and for certain new equipment. School districts can seek either two-thirds or 55% voter approval, the latter with additional accountability requirements. A simple majority of state voters can approve a state G.O. bond, which is repaid by state funds and has no impact on property tax rates. Although both state and local bonds are G.O. bonds, people often use the term "G.O. bond" to refer only to local bonds for school facilities.

General-purpose Funding

Money granted to school districts for general purposes, with the largest portion of it based on a per-pupil revenue limit amount. Districts can decide how the money is spent, within the constraints of certain laws and contracts with employees (See Revenue Limit).

Gifted and Talented Education (GATE)

A program that provides supplemental, differentiated, challenging curriculum and instruction to California public school students who are deemed by districts to be intellectually gifted or especially talented in leadership or visual and performing arts.

Healthy Start

A state grant program under which schools work with community organizations to provide children and families with access to health and human services, often at schools. The state approved the last round of new grants in 2002.

High Priority Schools Grant Program (HPSGP)

A program to support schools in the lower half of the state rankings (deciles 1 through 5) based on the Academic Performance Index (API). However, the initial emphasis is on decile 1 schools, which are at the bottom of the state's ranking system (See Academic Performance Index).

Immediate Intervention/Underperforming Schools Program (II/USP)

A component of the California's Public Schools Accountability Act (PSAA) designed to provide assistance and intervention for schools identified as underperforming. Three cohorts of 430 schools were chosen—one each in 1999, 2000, and 2001—for the three- to four-year program. In 2002, lawmakers funded instead a similar program (See High Priority Schools Grant Program).

Impact Aid

See PL 81-874.

Implicit Price Deflator

A measure of inflation used to compare expenditures over a period of time. The state uses the Implicit Price Deflator for state and local government purchases of goods and services to calculate increases to revenue limits.

Individualized Education Program (IEP)

A plan developed for a specific student that outlines what that student needs to learn in a specified period of time and what special services need to be provided based on the student's ability or limitations. Special Education students have IEPs that may also exempt them from tests or allow accommodations, such as an exam in Braille.

Individuals with Disabilities Education Act (IDEA)

A reauthorization of the federal Education For All Handicapped Children Act of 1975, which guarantees children with exceptional needs a free and appropriate public education. IDEA requires that each child's education be determined individually and designed to meet his or her unique needs in the least restrictive environment. It also establishes procedural rights for parents and children (See Special Education).

Inflation Factor

See Cost-of-living Adjustment.

Instructional Materials Funding Realignment Program (IMFRP)

A program created by the state in 2002–03 to pay for textbooks and related materials including, in some cases, professional development and assessment materials. The IMFRP requires districts to provide standards-based materials for each pupil by the start of the school year that begins within two years of the state's adoption of materials for K–8, and within two years of the district's adoption of materials for grades 9–12.

J-90

An optional salary information report that most districts and county offices of education submit to the California Department of Education (CDE). The main focus is teachers' salaries, but the J-90 also includes other certificated staff.

J-200, J-380

When all districts converted to the Standardized Account Code Structure (SACS) (see listing later in this glossary) in 2003–04, CDE discontinued the formerly utilized J-200 financial reports and J-380 program cost accounting reports that were submitted by districts to the California Department of Education.

Joint Powers Agreement (JPA)

An agreement between local education agencies (LEAs) (and/or sometimes the California Department of Education) to share services or responsibilities. A joint powers board, made up of representatives of the LEAs, governs the JPA.

Joint School Districts

School districts with boundaries that cross county lines.

Limited English Proficient (LEP)

See English Learner.

Local Education Agency (LEA)

A public board of education or other public authority within a state that maintains administrative control of public elementary or secondary schools in a city, county, township, school district, or other political subdivision of a state. School districts and county offices of education are both LEAs. A charter school can be deemed an LEA for the purposes of Special Education. [E.C. 47641]

Local Miscellaneous Revenues

School funding from locally generated sources, such as community contributions, interest income, developer fees, and revenues from local parcel tax elections.

Lottery

Gambling games approved by California voters in November 1984. The minimum of 34% of lottery revenues distributed to public schools, colleges, and universities must be used for educational purposes. Half of any increase of lottery income to school districts and community colleges—as compared to funding in the 1998-99 school year—must be used only for instructional materials, such as textbooks. Lottery income comprises less than 2% of K–12 education funding annually.

Maintenance Assessment District

An area in which fees charged to property owners are used to provide a service of benefit to all fee payers, such as the maintenance of public parks and recreation areas. Districts must hold an election before fees are levied. It is sometimes called a Benefit Assessment District.

Mandated Costs

School district expenditures required by federal or state law, court decisions, administrative regulations, or initiative measures. Since the passage of Proposition 4 in 1979 (the Gann Limit), the California constitution has required the repayment of mandated costs to school districts.

Master Plan for K–16 Education

A long-term, strategic plan for a single, seamless system of prekindergarten through postsecondary education that will provide better schools and higher levels of student achievement in every school, college and university, and will prepare students to enter the workforce. The main objectives of the plan are to focus the education system on student success and guide education policy and budget decisions over the next 20 years. This master plan has been in place since August 2002. For the most part, legislation to implement the plan has not been enacted.

Master Plan for Special Education (MPSE)

A California categorical program for the education of all children with disabilities, enacted in 1980 and modified frequently since then (See Special Education and Individuals with Disabilities Education Act).

Mello-Roos Community Facility District

A portion of a school district, often a new housing development, that can be taxed if two-thirds of property owners vote to approve it. Under Mello-Roos, property owners pay a special tax that is not based directly on the assessed value of the property.

Migrant Education

Special federal funds for districts with students who are children of migrant workers.

Multitrack, Year-round Education (MTYRE)

Schools with classes that take place throughout the calendar year. Individual students attend school for nine months, but on staggered schedules. Districts typically choose MTYRE to fully use school facilities. (A few districts have single-track year-round education—in which students have shorter vacations spread throughout the year—for educational reasons.)

National School Lunch Program

See Free/Reduced-price Meals.

Necessary Small Schools

Schools that need to have small populations, usually because they are in sparsely populated areas or serve special populations (such as Juvenile Court schools). These schools receive extra funding because they cannot realize economies of scale.

No Child Left Behind Act (NCLB)

The 2002 reauthorization of the Elementary and Secondary Education Act (ESEA). NCLB's provisions represent a significant change in the federal government's influence in public schools and districts throughout the United States, particularly in terms of assessment, accountability, and teacher quality. It increases the federal focus on the achievement of disadvantaged pupils, including English learners and students who live in poverty; provides funding for innovative programs; and supports the right of parents to transfer their children to a different school if their school is low-performing or unsafe (See Titles I–X).

Office of Public School Construction (OPSC)

The agency that implements and administers the School Facility Program and other programs of the State Allocation Board (SAB). OPSC also verifies that all school districts applying for state funding to modernize or build new facilities meet specific criteria based on the type of funding requested.

Opportunity To Learn (OTL)

Standards that measure the extent to which key education resources—such as experienced teachers, adequate materials, rigorous courses, and safe, clean, uncrowded facilities—are provided at a school site.

Parcel Tax

An assessment on each parcel of property—not based on assessed value—that must be approved by two-thirds of the voters in a school district. When proposing parcel tax elections, districts indicate how the money will be used. Money from parcel taxes is generally used for educational programs, not for school construction or renovation, which is normally financed through a general obligation bond measure.

Per Capita Personal Income

Total personal income from all sources prior to taxation, divided by the number of residents in a specified area (such as a county, city or state).

Public Law 81-874 (PL 81-874)

The federal program that provides funds to districts with children whose families live or work on federal property, such as military bases (See Title VIII).

Public Law 94-142 (PL 94-142)

A federal law that mandates a "free and appropriate" education for all children with disabilities (See Individuals with Disabilities Education Act).

Property Tax

A tax on local residential and commercial property that is part of a school district's income based on a formula set by the Legislature and signed by the governor in 1978. These taxes, which vary by district, are part of the district's revenue limit income (See Revenue Limit).

Proposition 13

An amendment to the California Constitution, passed by voter initiative in June 1978, that limits property taxes to no more than 1% of full assessed value (plus any additional rate approved by local voters, such as general obligation bonds). Annual increases in assessed value are capped at 2% or the percentage growth in the state's consumer price index (CPI), whichever is less. For individual properties, the assessed value is also raised when new construction or sale of property occurs (with a few exceptions). Proposition 13 and implementing legislation shifted support for schools from local property taxes to state general funds. Local voters can levy a uniform dollar tax per parcel of land; however, they cannot increase property taxes based on value, except by issuing general obligation (G.O.) bonds for school construction or renovation.

Proposition 39

An amendment to the California constitution passed by voter initiative in November 2000. It added the option of a lower voter approval threshold (55% vs. two-thirds) for local school district general obligation (G.O.) bonds. Districts which seek 55% approval must meet added financial and performance accountability requirements.

Proposition 49

An amendment to the California constitution passed by voter initiative in November 2002. It modified and expanded the existing state after-school programs. Beginning in 2004–05, any funding increases to the After School Education and Safety Program must come from funds other than Proposition 98 funds. Without voter approval, lawmakers can reduce funding to the program only if they also reduce Proposition 98 funds by the same percentage.

Propositions 98 and 111

Voter-approved initiatives that amended the California constitution in 1988 and 1990 to guarantee a minimum amount of funding from property and state taxes for K–14 (kindergarten through community college) education each year. The propositions included formulas for calculating the guarantee under different economic conditions. Proposition 98 also mandated School Accountability Report Cards (SARCs) (See School Accountability Report Card).

Public Employees' Retirement System (PERS)

A retirement fund required by state law. Classified employees and their employer (such as school districts and county offices of education) contribute.

Public Employment Relations Board (PERB)

A five-person board appointed by the governor that regulates collective bargaining between public employees (including school district employees) and employee organizations.

Public Schools Accountability Act (PSAA)

A law that outlines a comprehensive process for measuring schools' academic performance and ranks schools based on that performance. When schools fall short of expectations, the state may intervene—first with assistance and later with sanctions. Successful schools are expected to be recognized and rewarded. California lawmakers approved the PSAA in April 1999.

Pupil Weighting

A system of distributing funds—through the state to schools, districts or county offices of education—that provides more or less money based on the educational or social conditions of students in a school or district.

Regional Occupational Center/Program (ROC/ROP)

A center or program established by a school, district, group of districts or county office of education that provides training for entry-level jobs, upgrading of skills, and job-related counseling for youth ages 16 to 18.

Reserves

Funds set aside in a school district budget to provide for future expenditures, to offset future losses, for working capital, or for other purposes.

Revenue Limit

The amount of general-purpose money districts receive per pupil (ADA) from a combination of state funds and local property taxes. Categorical aid for specific programs and students is in addition to revenue limit income. The Legislature came up with the revenue limit concept to create a more equal distribution of monies for schools. Originally, revenue limits were calculated for each district based on historical spending patterns and varied considerably.

Revenues Per Pupil

The total amount of revenues allocated to K–12 education from all sources, divided by the number of students as determined (in most cases) by average daily attendance (ADA). The formula for revenues per pupil is based on the amount budgeted by the state rather than on what is actually spent by districts and the state to provide services (See Expenditures Per Pupil).

School Accountability Report Card (SARC)

An annual report on specified aspects of a school's operation, which is required by Proposition 98. Other state legislation and the federal No Child Left Behind Act (NCLB) also require SARCs (See Propositions 98 and 111).

School Board

A locally elected group, usually between three and seven members, who set fiscal, personnel, instructional, and student-related policies. A school district governing board also provides direction for the district, hires and fires the district superintendent, and approves the budget and contracts with employee unions.

School Facility Improvement District (SFID)

A portion of a school district that is taxed through a general obligation bond based on the value of the property and approved by the voters in that portion of the district being taxed. Originally SFIDs required two-thirds voter approval. But in July 2001, the Legislature added the option of a 55% approval threshold with the additional accountability provisions of Proposition 39. Typically, SFIDs involve new housing developments that create additional facility needs for the school district.

School Foundation

A tax-exempt organization established to raise funds and receive gifts and grants in support of a school district or individual school (also referred to as an education foundation).

School Improvement Program (SIP)

A plan for an improved education program developed by a school site council composed of staff, parents, and students (high schools only). SIP is one of the few categorical programs that provide discretionary money directly to schools. Funds are typically used for instructional aides, classroom materials, technology, and staff development.

School Site Council

Parents, students (high schools only), teachers, and other staff selected by their peers to prepare a school improvement plan and to assist in seeing that the planned activities are carried out and evaluated. Such a council is required when a school receives funding for a School Improvement Plan (SIP) or through Title I.

Scope of Bargaining

The range of subjects negotiated between school districts and employee organizations during collective bargaining. In California, scope includes matters relating to wages, hours and working conditions. The Public Employment Relations Board (PERB) is responsible for interpreting disputes about scope.

Section 504

A section of the federal Rehabilitation Act of 1973 that protects handicapped individuals from discrimination based on their handicap by employers, educational institutions, or programs that receive federal funds. Section 504 defines an "individual with a handicap" more broadly than the Individuals with Disabilities Education Act (IDEA), and in some circumstances provides additional rights not available under IDEA.

Seniority

A statutory system for protecting the job security of employees with the longest periods of service in a district. With few exceptions, the seniority list is used to determine which employees will be the first to be laid off or rehired.

Serrano Bands

A specific range of per-pupil funding. Under the Serrano v. Priest case (see below), the courts required the California Legislature to reduce differences in general-purpose funding to $100 per student, adjusted annually for inflation. This is called the Serrano band. The Serrano band was about $350 per student in 2004.

Serrano v. Priest

A California court case—begun in 1968 and settled in the mid-1970s—that challenged the inequities created by the U.S. tradition of using property taxes as the principal source of revenue for public schools, saying the wide discrepancies in school funding because of differences in district wealth represented a denial of equal opportunity. In response, legislators passed Senate Bill 90 in 1972, creating the revenue limit system that put a ceiling on the amount of general-purpose money each district could receive (See Serrano Bands).

Shortfall

An insufficient allocation of money, requiring an additional appropriation or resulting in a deficit.

Single Plan for Student Achievement

A plan required for schools that participate in any state or federal program included in the state's consolidated application (See Consolidated Application). The plan, which is developed by the school site council, must describe how the school will spend the funds received through the consolidated application to improve student achievement. The school district governing board must review and approve the plan. The Single Plan for Student Achievement replaced the disparate plans required for some state and federal programs.

Small Districts

For revenue limits: an elementary district with fewer than 101 students (based on ADA); a high school district with fewer than 301 students (ADA); and a unified (K–12) district with fewer than 1,501 students (ADA). For some other purposes, a small elementary district is defined as fewer than 901 (ADA). In California, 43% of districts have fewer than 1,000 students.

Special Education

Programs to identify and meet the educational needs of children with emotional, learning, or physical disabilities. Federal law requires that all children with disabilities be provided a free and appropriate education according to an Individualized Education Program (IEP) from infancy until 21 years of age (See Individuals with Disabilities Education Act and Individualized Education Program).

Special Education Local Plan Area (SELPA)

A regional group responsible for administering special education services effectively and efficiently. Districts are organized into SELPAs; some are countywide, some are a single large district or part of a district, and some combine several smaller districts.

Split Roll

A system of taxing business and industrial property at a different rate from residential property.

Standardized Account Code Structure (SACS)

A comprehensive system of accounting for and reporting school district revenues and expenditures. As of 2003–04, all school districts use SACS, which provides a variety of ways to track and report financial information, including by specific programs and functions.

Standardized Testing and Reporting Program (STAR)

A statewide testing system that contains three elements: 1) California Standards Tests (CSTs), which are based on the state's academic content standards; 2) California Achievement Tests, Sixth Edition Survey (CAT/6), a nationally norm-referenced, standardized, multiple choice basic skills test; and 3) Spanish Assessment of Basic Education, Second Edition (SABE/2), an additional norm-referenced test given to some Spanish-speaking students who are learning English. Student achievement on certain STAR tests largely determines a school's statewide ranking (See Academic Performance Index).

State Allocation Board (SAB)

A regulatory agency that controls most state-aided capital outlay and deferred maintenance projects, and that distributes funds for them.

State Education Agency (SEA)

The agency primarily responsible for supervising a state's public elementary and secondary schools. In California, it is the California Department of Education.

State Teachers' Retirement System (STRS)

A retirement fund required by state law. Certificated employees and education agencies (such as school districts and county offices of education) contribute to STRS.

Sunsetting

The termination of statutes and regulations (but not necessarily the funding) for a categorical program. A schedule for the Legislature to consider the sunset of state programs is usually contained in the law that created the programs.

Supplemental Grants

Money the state gives to some school districts—typically to districts less challenged than those receiving Economic Impact Aid. In some districts these grants supplement revenue limits, while in others they go to specific programs.

Supplemental Services (under NCLB)

Additional learning opportunities, such as tutoring services, that must be provided to students from low-income families who are attending schools that have not met annual performance goals for two years in a row under the No Child Left Behind Act (NCLB). Parents can choose appropriate services for their child from a list of approved providers. The school district pays for the services (See Adequate Yearly Progress).

Tenure

A system of due process and employment guarantee for teachers. After serving a two-year probationary period, teachers are assured continued employment in the school district unless carefully defined procedures for dismissal or layoff are successfully followed.

Titles I–X

Ten sections in the federal No Child Left Behind Act (NCLB).

Title I provides funds for educationally disadvantaged students, including the children of migrant workers. Funding is based on the number of low-income children in a school and is intended to supplement state and district funds, not replace them. The funds are distributed to school districts, which make allocations to eligible schools according to criteria in the federal law. Schools receiving Title I monies are supposed to involve parents in deciding how those funds are spent and in reviewing progress. Title I used to be called Chapter One. Part A provides basic grants for school improvement, while Part B focuses on improving reading programs. Parts C through I provide funding for a variety of purposes, including advanced placement programs and dropout prevention.

Title II provides funding to prepare, train, and recruit high-quality teachers and principals. It also includes grants to integrate technology into the classroom.

Title III provides funding for language instruction for English learners (EL) and immigrant students. This funding is in addition to any Title I funding a school might receive. It includes specific assessment and parent notification requirements.

Title IV provides grants for out-of-school programs aimed at keeping students safe and supporting academic achievement. Title IV includes funding for the 21st Century Community Learning Centers and the Safe and Drug Free Schools and Communities programs.

Title V promotes informed parental choice and innovative programs by providing grants to support innovative programs (Part A) and public charter schools (Part B). It also includes an incentive program to help charter schools meet their facility needs.

Title VI provides funding to promote flexibility and accountability. Part A provides funds for states to improve the quality, validity and reliability of their testing systems. It also allows districts to transfer funds among certain titles to most effectively meet student needs. Part B provides extra grant funds and flexibility to school districts that are located in rural areas and serve fewer than 600 students.

Title VII covers Native American, Native Hawaiian, and Alaska Native Education.

Title VIII provides Economic Impact Aid to school districts with children whose families live or work on federal property, such as military bases or Native American reservations.

Titles IX and X cover administrative issues.

Tuition Tax Credit
A reduction in state or federal income tax to offset a specified amount of money for private education tuition.

Unification
Joining together all or part of an elementary school district (grades K–8) and high school district (grades 9–12) to form a new unified school district (grades K–12) with a single governing board.

Unionization
Joining together of two or more elementary or high school districts to form a single elementary (grades K–8) or high school district (grades 9–12).

Voucher
A promise of payment from the state for all or part of a student's education expenses at a school of the student's choice. This term is generally used for the certificates or promises that governments provide to public school students so they can attend private schools of their choice.

Waiver
Permission from the State Board of Education to set aside the requirements of an education code provision or administrative regulations, upon the request of a school district. The code specifies which laws can be waived.

Williams v. California
A class action lawsuit, originally filed in 2000, in which plaintiffs contend that California has failed to provide thousands of public school students—particularly low-income students and students of color—with "bare minimum necessities." In August 2004 a tentative settlement was reached that included the following: accountability measures, such as empowering county superintendents to intervene in the lowest performing schools; a commitment to provide highly qualified teachers in every core class by 2006; and about $1.2 billion to make facilities repairs, buy textbooks, create a statewide facilities inventory, and continue the High Priority Schools Grant Program.

Glossary and Acronyms Prepared by EdSource

Appendix H

Acronyms

AB
Assembly Bill

ADA
Average Daily Attendance

API
Academic Performance Index

AYP
Adequate Yearly Progress

CalPERS
California Public Employees' Retirement System

CalSTRS
California State Teachers' Retirement System

CalWORKs
California Work Opportunity and Responsibility to Kids

CBEDS
California Basic Educational Data System

CDE
California Department of Education

COE
County Office of Education

COLA
Cost-of-living Adjustment

CPI
Consumer Price Index

CSR
Class Size Reduction

CSIS
California School Information Services

EIA
Economic Impact Aid

EL
English Learner

ESEA
Elementary and Secondary Education Act

FCMAT
Fiscal Crisis and Management Assistance Team

F/RPM
Free/Reduced-price Meals

GATE
Gifted and Talented Education

G.O. Bond
General Obligation Bond

HPSGP
High Priority Schools Grant Program

IDEA
Individuals with Disabilities Education Act

IEP
Individualized Education Program

II/USP
Immediate Intervention/Underperforming Schools Program

IMFRP
Instructional Materials Funding Realignment Program

JPA
Joint Powers Agreement

K–12
Kindergarten through 12th Grade

K–14
Kindergarten through Community College

K–16
Kindergarten through Undergraduate University

LEA
Local Education Agency

LEP
Limited English Proficient

MPSE
Master Plan for Special Education

MTYRE
Multitrack, Year-round Education

NCLB
No Child Left Behind Act

OPSC
Office of Public School Construction

OTL
Opportunity To Learn

PERB
Public Employment Relations Board

PERS
Public Employees' Retirement System

PL
Public Law (federal)

PSAA
Public Schools Accountability Act

ROC/ROP
Regional Occupational Center/Program

SAB
State Allocation Board

SACS
Standardized Account Code Structure

SARC
School Accountability Report Card

SB
Senate Bill

SBE
State Board of Education

SEA
State Education Agency

SELPA
Special Education Local Plan Area

SFID
School Facility Improvement District

SIP
School Improvement Program

STAR
Standardized Testing and Reporting Program

STRS
State Teachers' Retirement System

Glossary and Acronyms Prepared and Provided by EdSource.