

December 1, 2008

TO: District Superintendents  
School District Administrators

FROM: Division of Administration and Finance

SUBJECT: 2008/09 First Interims – Additional Guidance  
Special Legislative Session, November 24, 2008

On November 6, 2008, Governor Schwarzenegger called for a special legislative session to address the growing State Budget shortfall and passage of an economic stimulus package. The Governor is proposing a \$2.5 billion cut in the K-14 Proposition 98 expenditures in the current year. He has detailed the proposed cuts to education which include the elimination of the .68% COLA as well as further reductions of approximately 4.5% to 5% to the revenue limit. The Education Coalition is actively lobbying against Proposition 98 budget reductions for current and future years. At this point in time, the final reductions that might be enacted are unknown. The Governor's proposal is just the beginning of the process. The Legislature must agree by a two thirds vote to suspend Prop 98 in this fiscal year, however, Proposition 98 funding could be reduced to the minimum guarantee with a simple majority vote.

It is understood that the certification of the interim report is based upon many factors including the State Board of Education adopted Criteria and Standards and the FCMAT Predictors of School Agencies Needing Intervention. As you are aware, interim reports and their certifications are always based on the current plus two subsequent years for positive and qualified certifications and the current plus one additional year for a negative certification. Although there may be changes in the specifics of the proposed reductions, it is certain that education will be affected. We must be fiscally prudent and develop contingency plans for whatever reductions are ultimately required and understand that any changes will likely have a multi-year impact to district budgets.

Given the above statement, the advice contained in the memo dated October 23, 2008 regarding the 2008/09 First Interims still remains valid with the additional following guidance.

- The final action by the Legislature and Governor may include some level of categorical flexibility. Therefore, it is suggested that school districts and county offices consider reserving the 6.5% categorical reduction that was restored in the current year Budget for possible use in offsetting reductions that may be required.
- Future expenditures of all categorical funds should be reviewed and where possible, school districts should consider waiting to make decisions regarding these dollars until the Special Legislative Session has concluded.
- The Governor has proposed the elimination of the .68% COLA. School districts may want to consider reserving this amount in their ending balance.

- Continue to budget both the full 3% contribution to the RRMA as well as the Deferred Maintenance match.
- Again, it is suggested that for current and future years, school districts may want to consider delaying settlement of negotiations until after the Special Legislative Session is concluded and the January Budget is announced so that we have a better understanding of what funding may be available. We recognize that each school district's situation is unique, but it is recommended that long term commitments not be made at this time. If considering a multi-year contract, school districts need to be very flexible and have appropriate contingency language, such as basing compensation increases on "funded COLA" or "effective COLA". Also, recognize that there may be different COLAs for revenue limits versus categorical programs and this should be considered during settlement.
- If a negotiated agreement called for increasing the salary schedule by a funded COLA, it is suggested that you delay implementation of any increase until the final funded COLA is determined. In the event that the salary schedule has already been increased, you may want to review alternate plans with your legal counsel.
- Continue to closely monitor cash flow and develop borrowing strategies when necessary.
- Develop contingency plans that will allow you to be proactive in reacting to reductions necessary due to both the results of the 2008/09 Special Legislative Session and the 2209/10 Governor's Proposed Budget.

Information is constantly changing. Our next advisory will be based on the 2008/09 Special Legislative Session.

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