The State Board of Education has illustrated changes to the original text in the following manner: text originally proposed to be added is underlined; text proposed to be deleted is displayed in ~~strikeout~~.

# Title 5. EDUCATION

## Division 1. California Department of Education

### Chapter 14. School Finance

#### Subchapter 8. Criteria and Standards for School District Budgets and Interim Reports

##### **Article 1. Budget Review**

###### ****§ 15440. General.****

(a) School districts shall use the following criteria and standards (beginning with section 15441) and supplemental information (beginning with section 15452) in the development of their annual budgets. The county superintendent of schools will review the school district's budget to determine whether it complies with the criteria and standards.

(b) The budget review includes an analysis of ten criteria, with standards, and additional information about the status of the budget. The ten criteria are average daily attendance (ADA), enrollment, ADA to enrollment, local control funding formula (LCFF) revenue, salaries and benefits, other revenues and expenditures, facilities maintenance, deficit spending, fund and cash balances, and reserves. School district budgets are measured against the standards for each of these criteria. In addition to the criteria and standards, the review must identify additional information regarding contingent liabilities, use of one-time revenues for ongoing expenditures, use of ongoing revenues for one-time expenditures, contingent revenues, contributions, long-term commitments, unfunded liabilities, status of labor agreements, local control and accountability plan (LCAP), and LCAP expenditures. Deviations from the standards must be explained, and may affect the approval of the budget.

NOTE: Authority cited: Sections 33127 and 33129, Education Code. Reference: Sections 33128 and 52060, Education Code.

###### ****§ 15441. Average Daily Attendance (ADA).****

Projected funded ADA has not been overestimated in the first prior fiscal year or in two or more of the previous three fiscal years by more than the following percentage levels:

3% for districts with 0-300 ADA

2% for districts with 301-1,000 ADA

1% for districts with 1,001 and over ADA

NOTE: Authority cited: Sections 33127 and 33129, Education Code. Reference: Section 33128, Education Code.

###### ****§ 15442. Enrollment.****

Projected enrollment has not been overestimated in the first prior fiscal year or in two or more of the previous three fiscal years by more than the following percentage levels:

3% for districts with 0-300 ADA

2% for districts with 301-1,000 ADA

1% for districts with 1,001 and over ADA

NOTE: Authority cited: Sections 33127 and 33129, Education Code. Reference: Section 33128, Education Code.

###### ****§ 15443. Average Daily Attendance to Enrollment.****

Projected second period ADA to enrollment ratio for any of the budget year or two subsequent fiscal years has not increased from the historical average ratio from the three prior fiscal years by more than one half of one percent.

NOTE: Authority cited: Sections 33127 and 33129, Education Code. Reference: Section 33128, Education Code.

###### ****§ 15444. Local Control Funding Formula (LCFF) Revenue.****

(a) Projected LCFF revenue for any of the budget year or two subsequent fiscal years has not changed from the prior fiscal year by more than the change in population, plus the district's ~~gap funding or~~ cost-of-living adjustment (COLA) ~~and its economic recovery target payment~~, plus or minus one percent.

(b) For basic aid districts, projected LCFF revenue has not changed from the prior fiscal year by more than the percent change in property tax revenues plus or minus one percent.

(c) For districts funded by necessary small school formulas, projected LCFF revenue has not changed from the prior fiscal year amount by more than the district's ~~gap funding or~~ COLA ~~and its economic recovery payment~~, plus or minus one percent.

~~(d) For the purposes of this section, districts that are already at or above their LCFF target funding level as described in Education Code section 42238.03(d) receive no gap funding. These districts have a COLA applied to their LCFF target, but their year-over-year revenue increase might be less than the statutory COLA due to certain local factors and components of the funding formula.~~

NOTE: Authority cited: Sections 33127 and 33129, Education Code. Reference: Sections 33128, 42238.02 and 42238.03, Education Code.

###### ****§ 15445. Salaries and Benefits.****

Projected ratio of total unrestricted salaries and benefits to total unrestricted general fund expenditures for any of the budget year or two subsequent fiscal years has not changed from the historical average ratio from the three prior fiscal years by more than the greater of three percent or the district's required reserves percentage.

~~For purposes of this section, it is likely that for many districts the 2014-15 and 2015-16 change from the historical average ratio will exceed the standard because certain revenues that were restricted prior to the LCFF are now unrestricted within the LCFF.~~

NOTE: Authority cited: Sections 33127 and 33129, Education Code. Reference: Section 33128, Education Code.

###### ****§ 15446. Other Revenues and Expenditures.****

Projected operating revenues (including federal, other state and other local) or expenditures (including books and supplies, and services and other operating) for any of the budget year or two subsequent fiscal years, have not changed from the prior fiscal year amount by more than the percentage change in population and the funded cost-of-living adjustment plus or minus ten percent.

For each major object category, changes that exceed the percentage change in population and the funded cost-of-living adjustment plus or minus five percent must be explained.

NOTE: Authority cited: Sections 33127 and 33129, Education Code. Reference: Section 33128, Education Code.

###### ****§ 15447. Facilities Maintenance.****

Confirm that the annual contribution for facilities maintenance funding is not less than the amount required pursuant to Education Code section 17070.75, if applicable, and that the district is providing adequately to preserve the functionality of its facilities for their normal life in accordance with Education Code sections 52060(d)(1) and 17002(d)(1).

NOTE: Authority cited: Sections 33127 and 33129, Education Code. Reference: Sections 17002, 17070.75, 33128 and 52060, Education Code.

###### ****§ 15448. Deficit Spending.****

(a) Unrestricted deficit spending (total unrestricted expenditures and other financing uses is greater than total unrestricted revenues and other financing sources) as a percentage of total unrestricted expenditures and other financing uses, has not exceeded one-third of the district's available reserves as a percentage of total expenditures and other financing uses in two out of three prior fiscal years.

(b) For purposes of this section, available reserves are the unrestricted amounts in the Reserve for Economic Uncertainties, the Stabilization Arrangement, and the Unassigned/Unappropriated accounts in the General Fund and the Special Reserve Fund for Other Than Capital Outlay Projects. Available reserves will be reduced by any negative ending balances in restricted resources in the General Fund.

(c) For purposes of this section, a school district that serves as the Administrative Unit (AU) of a Special Education Local Plan Area (SELPA) may exclude from its expenditures the distribution of funds to its participating members.

NOTE: Authority cited: Sections 33127 and 33129, Education Code. Reference: Section 33128, Education Code.

###### ****§ 15449. Fund and Cash Balances.****

(a) Budgeted beginning unrestricted general fund balance has not been overestimated for two out of three prior fiscal years by more than the following percentage levels:

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 30,001-250,000~~400,000~~ ADA

0.3% for districts with 250,001~~400,001~~ and over ADA

(b) For purposes of this section, the percentage levels equate to a rate of deficit spending which would eliminate recommended reserves for economic uncertainties over a three year period.

(c) Projected general fund cash balance will be positive at the end of the current fiscal year.

NOTE: Authority cited: Sections 33127 and 33129, Education Code. Reference: Section 33128, Education Code.

###### ****§ 15450. Reserves.****

(a) 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 and other financing uses:

the greater of 5% or $80,000~~$55,000~~ for districts with 0-300 ADA

the greater of 4% or $80,000~~$55,000~~ for districts with 301-1,000 ADA

3% for districts with 1,001-30,000 ADA

2% for districts with 30,001-250,000~~400,000~~ ADA

1% for districts with 250,001~~400,001~~ and over ADA

(b) For purposes of this section, the following shall apply:

(1) Available reserves are the unrestricted amounts in the Reserve for Economic Uncertainties, the Stabilization Arrangement, and the Unassigned/Unappropriated accounts in the General Fund and the Special Reserve Fund for Other Than Capital Outlay Projects. Available reserves will be reduced by any negative ending balances in restricted resources in the General Fund.

(2) A school district that serves as the AU of a SELPA may exclude from its expenditures the distribution of funds to its participating members.

(3) The dollar amounts are to be adjusted annually by the prior year statutory cost-of-living adjustment (Education Code section 42238.02), rounded to the nearest thousand.

NOTE: Authority cited: Sections 33127 and 33129, Education Code. Reference: Sections 33128, 42338.02 and 42238.03, Education Code.

###### ****§ 15451. Supplemental Information.****

(a) School districts shall provide supplemental information in the following general areas:

(1) Provide the methodology and assumptions used to estimate ADA, enrollment, revenues, expenditures, reserves and fund balance, and multiyear commitments (including cost-of-living adjustments).

(2) Provide information on additional indicators as requested.

(b) School districts shall provide supplemental information in the following specific areas:

(1) Contingent Liabilities. Identify any known or contingent liabilities from financial or program audits, state compliance reviews, litigation, etc., that may impact the budget.

(2) 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 fiscal years.

(3) Use of Ongoing Revenues for One-time Expenditures. Identify any large nonrecurring general fund expenditures that are funded with ongoing general fund revenues.

(4) Contingent Revenues. Identify projected revenues for the budget year and 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.

(5) Contributions. Provide information regarding contributions as follows:

(A) Identify projected contributions from unrestricted resources in the general fund to restricted resources in the general fund for the budget year and two subsequent fiscal years. Provide an explanation if contributions have changed from the prior fiscal year amounts by more than $20,000 and more than ten percent. An explanation should include whether contributions are ongoing or one-time in nature.

(B) Identify projected transfers to or from the general fund to cover operating deficits in either the general fund or any other fund for the budget year and two subsequent fiscal years. Provide an explanation if transfers have changed from the prior fiscal year amounts by more than $20,000 and more than ten percent. An explanation should include whether transfers are ongoing or one-time in nature.

(C) Estimate the impact of any capital projects on the general fund operational budget.

(6) Long-term Commitments. Provide information regarding long-term commitments as follows:

(A) Identify all existing and new multiyear commitments (include multiyear commitments, multiyear debt agreements, and new programs or contracts that result in long-term obligations) and their annual required payment for the budget year and two subsequent fiscal years.

(B) Explain how any increase in annual payments will be funded. Also explain how any decrease to funding sources used to pay long-term commitments will be replaced.

(7) Unfunded Liabilities. Provide information regarding unfunded liabilities as follows:

(A) Estimate the unfunded liability for post employment benefits other than pensions (OPEB) based on an actuarial valuation, if required, or other method; identify or estimate the actuarially determined~~annual required~~ contribution, if applicable; and indicate how the obligation is funded (pay-as-you-go, amortized over a specific period, etc.).

(B) Estimate the unfunded liability for self-insurance programs such as workers' compensation based on an actuarial valuation, if required, or other method; identify or estimate the required contribution; and indicate how the obligation is funded (level of risk retained, funding approach, etc.).

(8) Status of Labor Agreements. Analyze the status of all employee labor agreements, including the following:

(A) 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.

(B) Compare the increase in new commitments to the projected increase in ongoing revenues, and explain how these commitments will be funded in future fiscal years.

(C) If salary and benefit negotiations are not finalized at budget adoption, upon settlement with certificated or classified staff:

1. 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.

2. The county superintendent of schools 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.

(9) Local Control and Accountability Plan (LCAP). Confirm that the school district's governing board has adopted an LCAP or an update to the LCAP effective for the budget year.

(10) LCAP Expenditures. Confirm that the school district’s budget includes the expenditures necessary to implement the LCAP or annual update to the LCAP.

NOTE: Authority cited: Sections 33127 and 33129, Education Code. Reference: Sections 33128, 42127 and 52060, Education Code; and Sections 3540.2 and 3547.5, Government Code.

##### **Article 2. Interim Report Review**

###### ****§ 15453. General.****

(a) School districts shall conduct a review of their budgets at Interim Report time in accordance with the following criteria and standards (beginning with section 15454) and supplemental information (beginning with section 15464). The county superintendent of schools will review the school district's Interim Report using the criteria and standards.

(b) The school district superintendent shall submit two interim reports to its governing board during each fiscal year. Both interim reports shall be approved by the district's governing board along with a certification on whether their school district is able to meet its financial obligations for the remainder of the fiscal year and, based on current forecasts, for the two subsequent fiscal years. The certification shall be based on the governing board's assessment and the criteria and standards. The certification shall be classified as positive, qualified, or negative.

(1) A positive certification indicates that, based on current projections the school district will meet its financial obligations for the current fiscal year and two subsequent fiscal years.

(2) 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.

(3) 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 current fiscal year or the subsequent fiscal year.

(c) The review includes an analysis of ten criteria, with standards, and supplemental information about the status of the budget at Interim Report time. The ten criteria are fund and cash balances, reserves, deficit spending, ADA, enrollment, ADA to enrollment, LCFF revenue, salaries and benefits, other revenues and expenditures, and facilities maintenance. Each of these criteria has a standard by which it is measured. In addition to the criteria and standards, the review must identify additional information regarding contingent liabilities, use of one-time revenues for ongoing expenditures, contingent revenues, contributions, long-term commitments, unfunded liabilities, temporary interfund borrowings, status of labor agreements, and the status of other funds. Deviations from the standards must be explained, and may affect the interim certification.

NOTE: Authority cited: Sections 33127, 33129 and 42131, Education Code. Reference: Section 33128, Education Code.

###### § 15454. Fund and Cash Balances.

Projected general fund balances will be positive at the end of the current fiscal year and two subsequent fiscal years and the projected general fund cash balance will be positive at the end of the current fiscal year.

NOTE: Authority cited: Sections 33127, 33129 and 42131, Education Code. Reference: Section 33128, Education Code.

###### § 15455. Reserves.

(a) Available reserves for any of the current fiscal year or two subsequent fiscal years are not less than the following percentages or amounts as applied to total expenditures and other financing uses:

the greater of 5% or $80,000 for districts with 0-300 ADA

the greater of 4% or $80,000 for districts with 301-1,000 ADA

3% for districts with 1,001-30,000 ADA

2% for districts with 30,001-250,000~~400,000~~ ADA

1% for districts with 250,001~~400,001~~ and over ADA

(b) For purposes of this section, the following shall apply:

(1) Available reserves are the unrestricted amounts in the Reserve for Economic Uncertainties, the Stabilization Arrangement, and the Unassigned/Unappropriated accounts in the General Fund and the Special Reserve Fund for Other Than Capital Outlay Projects. Available reserves will be reduced by any negative ending balances in restricted resources in the General Fund.

(2) A school district that serves as the AU of a SELPA may exclude from its expenditures the distribution of funds to its participating members.

(3) The dollar amounts are to be adjusted annually by the prior year statutory cost-of-living adjustment (Education Code section 42238.02), rounded to the nearest thousand.

NOTE: Authority cited: Sections 33127, 33128, 33129 and 33131, Education Code. Reference: Sections 33128, 42238.02 and 42238.03, Education Code.

###### § 15456. Deficit Spending.

(a) Unrestricted deficit spending (total unrestricted expenditures and other financing uses is greater than total unrestricted revenues and other financing sources) as a percentage of total unrestricted expenditures and other financing uses, has not exceeded one-third of the district's available reserves as a percentage of total expenditures and other financing uses in any of the current fiscal year or two subsequent fiscal years.

(b) For purposes of this section, the following shall apply:

(1) Available reserves are the unrestricted amounts in the Reserve for Economic Uncertainties, the Stabilization Arrangement, and the Unassigned/Unappropriated accounts in the General Fund and the Special Reserve Fund for Other Than Capital Outlay Projects. Available reserves will be reduced by any negative ending balances in restricted resources in the General Fund.

(2) A school district that serves as the AU of a SELPA may exclude from its expenditures the distribution of funds to its participating members.

NOTE: Authority cited: Sections 33127, 33129 and 42131, Education Code. Reference: Section 33128, Education Code.

###### § 15457. Average Daily Attendance.

(a) Projected ~~F~~funded ADA for any of the current fiscal year or two subsequent fiscal years has not changed by more than two percent since budget adoption.

(b) For purposes of this section, first interim reports will be compared to adopted budgets; second interim reports will be compared to first interim projections.

NOTE: Authority cited: Sections 33127, 33129 and 42131, Education Code. Reference: Section 33128, Education Code.

###### § 15458. Enrollment.

(a) Projected enrollment for any of the current fiscal year or two subsequent fiscal years has not changed by more than two percent since budget adoption.

(b) For purposes of this section, first interim reports will be compared to adopted budgets; second interim reports will be compared to first interim projections.

NOTE: Authority cited: Sections 33127, 33129 and 42131, Education Code. Reference: Section 33128, Education Code.

###### § 15459. ADA to Enrollment.

Projected second period ADA to enrollment ratio for any of the current fiscal year or two subsequent fiscal years has not increased from the historical average ratio from three prior fiscal years by more than one half of one percent.

NOTE: Authority cited: Sections 33127, 33129 and 42131, Education Code. Reference: Section 33128, Education Code.

###### § 15460. Local Control Funding Formula (LCFF) Revenue.

(a) Projected LCFF revenue for any of the current fiscal year or two subsequent fiscal years has not changed by more than two percent since budget adoption.

(b) For purposes of this section, first interim reports will be compared to adopted budgets; second interim reports will be compared to first interim projections.

NOTE: Authority cited: Sections 33127, 33129 and 42131, Education Code. Reference: Section 33128, 42238.02 and 42238.03, Education Code.

###### § 15461. Salaries and Benefits.

Projected ratio of total unrestricted salaries and benefits to total unrestricted general fund expenditures for any of the current fiscal year or two subsequent fiscal years has not changed from the historical average ratio from the three prior fiscal years by more than the greater of three percent or the district's required reserves percentage.

~~For purposes of this section, it is likely that for many districts the 2014-15 and 2015-16 change from the historical average ratio will exceed the standard because certain revenues that were restricted prior to the LCFF are now unrestricted within the LCFF.~~

NOTE: Authority cited: Sections 33127, 33129 and 42131, Education Code. Reference: Section 33128, Education Code.

###### § 15462. Other Revenues and Expenditures.

(a) Projected operating revenues (including federal, other state and other local) or expenditures (including books and supplies, and services and other operating) for any of the current fiscal year or two subsequent fiscal years, have not changed by more than five percent since budget adoption.

(b) Changes that exceed five percent in any major object category must be explained.

(c) For purposes of this section, first interim reports will be compared to adopted budgets; second interim reports will be compared to first interim projections.

NOTE: Authority cited: Sections 33127, 33129 and 42131, Education Code. Reference: Section 33128, Education Code.

###### § 15463. Facilities Maintenance.

(a) Identify changes that have occurred since budget adoption in the projected contributions for facilities maintenance funding as required pursuant to Education Code section 17070.75, or in how the district is providing to preserve the functionality of its facilities for their normal life in accordance with Education Code sections 52060(d)(1) and 17002(d)(1).

(b) For purposes of this section, first interim reports will be compared to adopted budgets; second interim reports will be compared to first interim projections.

NOTE: Authority cited: Sections 33127, 33129 and 42131, Education Code. Reference: Sections 17002, 17070.75, 33128 and 52060, Education Code.

###### § 15464. Supplemental Information.

(a) School districts shall provide supplemental information in the following general areas:

(1) Provide the methodology and assumptions used to estimate ADA, enrollment, revenues, expenditures, reserves and fund balance, and multiyear commitments (including cost-of-living adjustments).

(2) Provide information on additional indicators as requested.

(b) School districts shall provide supplemental information in the following specific areas:

(1) 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.

(2) Use of One-Time Revenues for Ongoing Expenditures. Identify ongoing general fund expenditures funded by one-time revenues that have changed by more than five percent since budget adoption. (For this purpose, the first interim reports will be compared to adopted budgets; the second interim reports will be compared to first interim projections.)

(3) Contingent Revenues. Identify projected revenues for the current fiscal year and 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.

(4) Contributions. Provide information regarding contributions as follows:

(A) Identify projected contributions from unrestricted resources in the general fund to restricted resources in the general fund for the current fiscal year and two subsequent fiscal years. Provide an explanation if contributions have changed by more than $20,000 and more than five percent since budget adoption. (For this purpose, the first interim reports will be compared to adopted budgets; the second interim reports will be compared to first interim projections.)

(B) Identify projected transfers to or from the general fund to cover operating deficits in either the general fund or any other fund for the current fiscal year and two subsequent fiscal years. Provide an explanation if transfers have changed by more than $20,000 and more than five percent since budget adoption. (For this purpose, the first interim reports will be compared to adopted budgets; the second interim reports will be compared to first interim projections.)

(C) Identify capital project cost overruns that have occurred since budget adoption that may impact the general fund budget. (For this purpose, the first interim reports will be compared to adopted budgets; the second interim reports will be compared to first interim projections.)

(5) Long-Term Commitments. Provide information regarding long-term commitments as follows:

(A) Identify all existing and new multiyear commitments (include multiyear commitments, multiyear debt agreements, and new programs or contracts that result in long-term obligations) and their annual required payment, for the current fiscal year and two subsequent fiscal years.

(B) Explain how any increase in annual payments will be funded. Also explain how any decrease to funding sources used to pay long-term commitments will be replaced.

(6) Unfunded Liabilities. Identify any changes in estimates for unfunded liabilities since budget adoption, and indicate whether the changes are the result of a new actuarial valuation. (For this purpose, the first interim reports will be compared to adopted budgets; the second interim reports will be compared to first interim projections.)

(7) Temporary Interfund Borrowings. Identify projected temporary borrowings between funds (refer to Education Code section 42603).

(8) Status of Labor Agreements. Analyze the status of all employee labor agreements, including the following:

(A) Identify new labor agreements that have been ratified since budget adoption, 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. (For this purpose, the first interim reports will be compared to adopted budgets; the second interim reports will be compared to first interim projections.)

(B) Compare the increase in new commitments to the projected increase in ongoing revenues, and explain how these commitments will be funded in future fiscal years.

(C) If salary and benefit negotiations are not finalized, upon settlement with certificated or classified staff:

1. 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.

2. The county superintendent of schools 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.

(9) 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.

NOTE: Authority cited: Sections 33127 and 33129, Education Code. Reference: Sections 33128 and 42603, Education Code; Sections 3540.2 and 3547.5, Government Code.

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