



September 2012

Governance Brief

State mandate funding options

By **September 30, 2012** districts, county offices of education and charter schools must select a cost reimbursement option for state-mandated programs for the current year. Remember that claims for 2011-12 will still need to be filed. Your September 30 decision only covers programs offered for the 2012-13 school year.

Cost Reimbursement Options

Each year, districts/COEs/charter schools will select a reimbursement option. The two options include:

- Continue with the long-standing constitutional mandate claims reimbursement process. Choosing this process frequently results in delayed payment well beyond the next fiscal year.
- Participate in the new mandated-programs block grant that provides a flat-funding amount in the current year. The flat-funding amount is estimated to range between 40 percent to more than 100 percent of a district's actual claimed cost reimbursement.

The selection will be different for every district!

Claim Option or Block Grant?

Calculate the approximate amount that the district/COEs claims would generate and measure that amount against the ADA-generated totals for the block grant. Once those numbers are calculated, the district/COE can determine whether the difference is worth the immediate cash-flow value.

- Weigh the costs of accounting and reporting claims.
- Weigh the costs of borrowing money for cash flow needs.
- Weigh public relations issues around giving up full reimbursement.

Block Grant Allocation Formula

- \$28 per prior year ADA for districts
- \$14 per prior year ADA for charter schools
- \$28 per prior year ADA for COEs plus \$1 per prior year revenue limit ADA generated by the COE and every district in that county

Questions for board members to ask District/COE CBOs

- **What is the recommended state-mandate reimbursement option for the coming year for the district/COE? Why?**
- **Is the district/COE complying with all mandates in the block grant?** Penalties can apply if audits determine a district/COE is not performing all of the mandated activities as required.
- **Are the district's charter schools planning to participate in the block grant?** This will be the only way charters will receive mandate funding. However, charter schools are required to participate in all of the mandates that apply to charter schools to receive funding.
- **Are unusually significant mandated costs anticipated this year in any of the particular state-mandated programs that the district/COE needs to account for?**
- **Will the district/COE need to borrow money for cash flow?** If cash flow issues must be solved with short-term borrowing and if the goal is to increase cash on hand, the block-grant funding could be helpful in 2012-13, regardless of the degree to which it is less than what would ordinarily be claimed.

Background information

The claim-reimbursement system currently in place came about when the state constitution was amended to require the state to reimburse local governments for the implementation of state-mandated programs. In recent years, the state has attempted to avoid paying mandate claims in a variety of ways, including deferring payments. The current claims process requires districts/COEs to submit claims after the school year is complete, subject to an audit, which are paid when the Legislature appropriates funding for that purpose. Audits may decrease the final amount repaid. Charter schools are not eligible to participate in the current process, nor are districts allowed to submit claims for programs that have claims of less than \$100.

Budgeting

- If the district/COE continues to use the claims process, nothing will be included in the budget until actual cash is received.
- Districts/COEs that select the block-grant option will include the mandate block grant as revenue in the current year budget since it is funded by the Budget Act.

Factors to consider

Consider improving the district's/COE's claims process to ensure full reimbursement. Deferred claim payments accrue interest. CSBA works with companies that offer claim processing services. For more information, visit bit.ly/Pf8Ylw.

- Even if your district is already implementing all mandated programs, you may not be claiming all of these mandates. Very small districts, which have not been filing because their claim amount is too small, may find the block-grant option to be a helpful tactic for receiving new money. Remember that if a district is not claiming a mandate now, costs may increase if the district/COE moves to the block-grant option if local performance changes to ensure compliance with the programs included in the block grant, which are all subject to audit.
- Know your district's/COE's claim base before comparing projected block-grant income. Do you anticipate higher mandated costs this year, such as with collective bargaining? If so, these higher-cost mandates could increase the district's/COE's base costs over past years, making mandate claiming a better option.
- Are there programs in the block grant that do not apply to the district/COE? If so, that may increase the value of the block grant on a per-student basis since districts/COEs are paid for them anyway.

- Charter schools can ONLY receive money through the block grant for mandates, but should only sign up if they comply with all of the mandates in the block that apply to charter schools.

Frequently Asked Questions

Q Is this money guaranteed?

A The Legislature is free to change this option should both Propositions 30 and 38 fail in November, even though the budget trigger is currently a per-ADA reduction to revenue limits. It is important to note that if the block grant is ever reduced, deferred or eliminated, there is no interest obligation that accrues similar to what occurs with the constitutionally-backed debt created in regular claiming.

Q Is the funding rate locked in permanently?

A No. Rates may change from year-to-year as part of the budget process. There are no guarantees about what block grant funding will look like in the future.

Q If we take the block grant for 2012-13, can we change our decision in future years?

A Each year by September 30, districts/COEs/charter schools must select a reimbursement option. If a district/COE chooses to participate in the block-grant program and then decides to go back to the claims process, the district/COE will have to reinstitute its former claiming practices to ensure that claims are valid. *Note: For the 2012-13 fiscal year only, districts may opt out of the block grant after signing up. But, they must do so prior to receiving any money.*

Q Are districts/COEs reimbursed for mandates not on the list?

A The district/COE may file separately for cost reimbursements for the remaining active mandates, the Graduation Requirement Mandate and the Behavioral Intervention Plan Mandate (BIP) (both currently in litigation), as well as any mandates newly approved this year, remains in place. The California State Controller's Office believes it will be able to accept and pay those claims. The Department of Education agrees. The Department of Finance believes all valid mandates are in the block grant and questions whether or not claims outside the block grant will be funded in the future. Keep in mind that money must first be appropriated for the payment of claims for each particular mandate in the annual Budget Act, and claims for those not in the block grant may simply be added to the "credit card."

Q What penalties may be assessed, up to and including the potential forfeiture of all block-grant funds, if a district accepting the block grant makes a claim for any mandate outside the block grant under the traditional claims process for the same school year?

A The State Controller, CDE and Department of Finance are now in concurrence that districts may claim for mandates not in the block grant without jeopardizing their block-grant funds.

Q Can COEs collect the extra dollar per ADA in the allocation formula if individual districts do not participate?

A Yes. The additional money is intended for COE oversight activities. COE participation is not contingent upon district participation.

Resources:

CDE Mandated Block Grant Site

www.cde.ca.gov/fg/aa/ca/mandatebg.asp

Government Code 17575 – 17581.7 relative to mandated cost claims

CSBA Annual Education Conference & Trade Show