

*QUALIFIED & NEGATIVE*  
**Budget Certifications**

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*Information, tips & communications tools  
for the governance team*



Special thanks to ...

***California Department of Education***

***California Association of School Business Officials***

***Financial Crisis Management Assistance Team***

... for sharing information, expertise and content for this resource guide for CSBA members.



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**Background**

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## Facts About State Emergency Loans

If a school district governing board determines during a fiscal year that it has insufficient funds to meet its current obligations, it may request an emergency apportionment loan. Statute specifies legislative intent that emergency apportionment loans are to be provided only through a legislative appropriation. This process typically takes several months and will begin before the cash is actually needed.

The legislative approval process will require board members and the district superintendent to appear multiple times to explain the reasons a loan is needed.

All costs of the loan principal, interest and management are born by the district.

General statutory conditions for acceptance of a loan that exceeds 200 percent of the amount of the district's recommended reserve (1-5% of the budget as required by law) include:

- The State Superintendent of Public Instruction (SSPI) shall assume all the legal rights, duties, and powers of the governing board of the district.
- The SSPI shall appoint an administrator to act on behalf of the SSPI, at the expense of the district. The administrator may hire additional staff, at district expense, needed to further his/her efforts to monitor and restore the budget.
- The school district governing board shall be advisory only and report to the state administrator. They continue to meet and offer comment on items on the regular meeting agenda but hold no authority to make decisions.
- The authority of the SSPI and state administrator shall continue until certain conditions are met. At that time, the SSPI shall appoint a trustee to replace the administrator. Trustee authority is addressed below.

General statutory conditions for acceptance of a loan that equals or is less than 200 percent of the amount of the district's recommended reserve include:

- The SSPI shall appoint a trustee to monitor and review the operation of the district.
- The school district governing board shall retain governing authority but the trustee shall have the authority to stay and rescind any action of the local district governing board that, in the judgment of the trustee, may affect the financial condition of the district.
- The authority of the SSPI and the state-appointed trustee shall continue until the loan and associated costs have been repaid in full, the district has adequate fiscal systems and controls in place, and the SSPI has determined that the district's future compliance with the fiscal plan approved for the district is probable.

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## Understanding Qualified & Negative Certification and the Role of the County Office of Education

### *WHAT IS BUDGET CERTIFICATION AND WHO DOES IT?*

California Education Code requires each school district's board of education to submit two interim financial reports each year to the County Superintendent along with self-certification about the ability to continue paying obligations in the current and two subsequent budgetary years. The County Superintendent then reviews and certifies the district's budget for the current fiscal year and two subsequent years as positive, qualified or negative.

### *WHAT DO THESE TERMS MEAN?*

- **Positive:** The district is projected to be able to meet its financial obligations all three years.
- **Qualified:** It is projected that the district may not meet its financial obligations in one of the three years.
- **Negative:** It is projected that district will not be able to meet its financial obligations in the current or next fiscal year.

### *WHAT DOES THE COUNTY SUPERINTENDENT DO WITH THIS INFORMATION?*

If the County Superintendent determines that a school district is qualified or negative, the County Superintendent notifies the district governing board and the State Superintendent of Public Instruction in writing of that opinion. If negative, the County Superintendent also notifies the State Controller. A district may appeal that determination to the State Superintendent.

The county office of education works with the district to help improve its financial condition.

### *WHAT IS THE ROLE OF THE COUNTY OFFICE REGARDING QUALIFIED CERTIFICATION STATUS?*

The County Superintendent is empowered to take one or more of these actions:

- **Assign a fiscal expert**, paid for by the County Superintendent, to advise the district on its financial problems.

- **Conduct a study of the financial and budgetary conditions of the district** that includes, but is not limited to, a review of internal controls. If, in the course of this review, the County Superintendent determines that his or her office requires analytical assistance or expertise that is not available through the district, he or she may employ, on a short-term basis, with the approval of the Superintendent of Public Instruction, staff, including certified public accountants, to provide the assistance and expertise. The school district shall pay 75 percent and the county office of education shall pay 25 percent of these staff costs.
- **Direct the school district to submit a financial projection** of all fund and cash balances of the district as of June 30 of the current year and subsequent fiscal years as he or she requires.
- **Require the 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.
- **Direct the district to submit a proposal for addressing the fiscal conditions** that resulted in the determination that the district may not be able to meet its financial obligations.
- **Withhold compensation of the members of the governing board and the district superintendent** for failure to provide requested financial information. This action may be appealed to the State Superintendent of Public Instruction.
- **Assign the Fiscal Crisis & Management Assistance Team (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. FCMAT could provide the district with recommendations to streamline and improve the teacher hiring process, teacher retention rate, extent of teacher misassignment, and provision of highly qualified teachers. If a review team is assigned to a school district, the district shall follow the recommendations of the team, unless the district shows good cause for failure to do so. The Fiscal Crisis & Management Assistance Team may not recommend an action that would abrogate a contract that governs employment.

**WHAT IS THE ROLE OF THE COUNTY OFFICE REGARDING NEGATIVE CERTIFICATION STATUS?**

The County Superintendent is empowered to take one or more of these actions:

- Develop and impose revisions to the district budget.
- Stay and rescind action inconsistent with revisions.
- 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.
- Assist in developing, in consultation with the governing board of the school district, a budget for the subsequent fiscal year.
- Appoint a fiscal adviser to perform any or all of these duties on his or her behalf.

The County Superintendent is not authorized to change any prior provision of a collective bargaining agreement.

The district shall pay 75 percent of the costs of these activities, while the county office of education pays 25 percent.

#### ***WHEN DOES COUNTY OFFICE INTERVENTION STOP?***

These duties follow the annual budget certification process. Therefore, if the next interim budget is certified as positive, the County Superintendent no longer has these authorities. If the next interim budget is qualified, these provisions will apply. If a district fails to resolve its negative status and requires an emergency loan from the state, the state takeover process begins and all district decisions are then made by an administrator appointed by the State Superintendent of Public Instruction until the district is again solvent.

#### ***WHAT IS THE ROLE OF THE COUNTY BOARD IN THIS PROCESS?***

While the county boards of education have no direct involvement in the financial review of districts, the county board guides and supports the county office of education in providing leadership to the school districts in the county. The board also provides community leadership on educational issues and advocates on behalf of students and public education at local, state and federal levels. It also collaborates with the elected County Superintendent of Schools so that the shared vision, mission, goals and policies of the county office of education can be implemented. It is the role and function of the County Superintendent to review and report on the financial condition of districts (EC1241.5).





## Financing Options

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## Commonly Asked Questions About Cash Flow Borrowings and Tax/Revenue Anticipation Notes

### *UNDER WHAT CONDITIONS CAN DISTRICTS SECURE LOANS TO ASSIST WITH CASH FLOW?*

School districts are allowed to borrow money when cash flow is insufficient to pay expenditures. Pursuant to accepted accounting practices, districts are only allowed to include in their budgets funds they have reasonable assurance they will be receiving. (Districts may include revenues projected from the January or May Revision of the proposed budget. Funds anticipated from yet-to-be completed negotiations with employee groups or contractors may not be included in budgetary projections. Nor may districts include funds from expected grants, sales of property or donations that have yet to come to fruition.)

### *WHAT FINANCIAL ASSISTANCE AND SERVICES ARE AVAILABLE FROM CSBA TO ASSIST WITH CASH FLOW ISSUES?*

For more than 20 years, CSBA's Cash Reserve Program, sponsored by the organization's Finance Corporation, has provided school districts and county offices of education with streamlined, cost-effective methods to issue tax and revenue anticipation notes.

**Tax and Revenue Anticipation Notes (TRANs):** CSBA offers a service providing for TRANs, allowing borrowing to cover short-term cash flow needs. Participating in this larger multi-district borrowing effort allows districts to minimize the cost of borrowing. A district that has filed a qualified or negative interim report in the current or preceding fiscal year may issue a TRANs with the approval of the district's county office of education; however, a district with a negative interim report will not be issued through the pooled TRAN program.

Districts will need to provide their cash flow projection, first interim cash flow reports and/or any additional cash flow projections as part of the TRANs application process to demonstrate how the district will pay off the short-term loan.

Traditional TRANs must be paid off within the fiscal year in which the money is borrowed. Cross-year TRANs are only available due to the state's apportionment deferral budgeting. Per state law when participating in a cross-year TRANs, only revenues from the fiscal year in which a TRANs is issued can be pledged for its repayment. For example, since 2012-13 revenues cannot be pledged toward the repayment of a cross-fiscal year TRANs issued in the 2011-12 fiscal year, only the deferred 2011-12 state apportionment payments will secure this cross-fiscal year TRANs. After the 2011-12 deferred apportionment payments are received, these funds must be set aside to repay the cross-fiscal year TRANs.

More information about CSBA's Financial Services is available at [www.csba.org/Services/Services/FinancialServices/FinancialServicesReqsInfoForm.aspx](http://www.csba.org/Services/Services/FinancialServices/FinancialServicesReqsInfoForm.aspx)

### **WHAT SOURCES ARE AVAILABLE FOR FUNDING CASH FLOW DISCREPANCIES?**

**Borrow from yourself.** Look at ending balances in other funds which may be borrowed and repaid when funds are restored. Interest must be paid to the fund borrowed from.

**Borrow from government entities** at typically favorable government rates. The two most common sources are the county office of education and your county treasury.

**Explore the various financial solutions offered by CSBA** and determine if a TRANs, RANs or COPS would be the right approach for your district.

**Issue an individual TRAN.**

**Request An Exemption.** The California Department of Finance (DOF) may be petitioned to provide an exception to your district. DOF, on a case by case basis, may suspend the additional yearly deferrals for your district if the deferrals place your district in a negative cash flow position and you cannot borrow. Be aware that if your district is eligible to secure a loan, even at high interest rates, DOF will be disinclined to grant approval. To date, DOF has approved all requests from districts demonstrating the need for fiscal relief.

When all else fails, and you have no alternative, **borrowing from the State of California is a last resort and will result in state takeover of your district.**



## Collective Bargaining

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## Collective Bargaining

Since salaries and benefits represent such a significant part of any district budget, it is almost impossible to get out of qualified or negative status without help from your employee associations.

As a board member, you'll need to ask about the status of your negotiations and provide leadership on your priorities to your negotiating team.

Understand that the negotiations process can take considerable time. Educate yourself about the various steps in that process.

The following pages have been reprinted from *Maximizing School Board Governance: Collective Bargaining*, a CSBA training tool.

## The Board’s Role in Collective Bargaining

The board’s role in collective bargaining is to ensure contracts are written which enhance the ability of teachers to provide motivated quality teaching and help administrators to manage and reward the teachers and all other employees who serve children. The contract is one more tool the board uses to achieve the district vision.

*The role of the board in collective bargaining is to:*

<b>STEP 1</b>	understand the collective-bargaining process and become knowledgeable about the history of negotiations in the district
<b>STEP 2</b>	understand the different approaches to negotiations
<b>STEP 3</b>	understand the programmatic and fiscal implications of collective-bargaining contracts
<b>STEP 4</b>	understand the importance of an effective communications plan and see that one is in place
<b>STEP 5</b>	create a framework for negotiations by determining the district’s approach to bargaining, deciding on the district’s bargaining representatives and clarifying roles and responsibilities
<b>STEP 6</b>	provide direction for initial collective-bargaining proposals by establishing specific collective-bargaining goals, priorities, positions or interests, and parameters which will help us achieve the district vision
<b>STEP 7</b>	monitor contract negotiations and continue to provide policy direction throughout the process
<b>STEP 8</b>	provide leadership if there is an impasse or strike
<b>STEP 9</b>	vote on acceptance of the contract; and
<b>STEP 10</b>	monitor administration of the contract and plan for future negotiations

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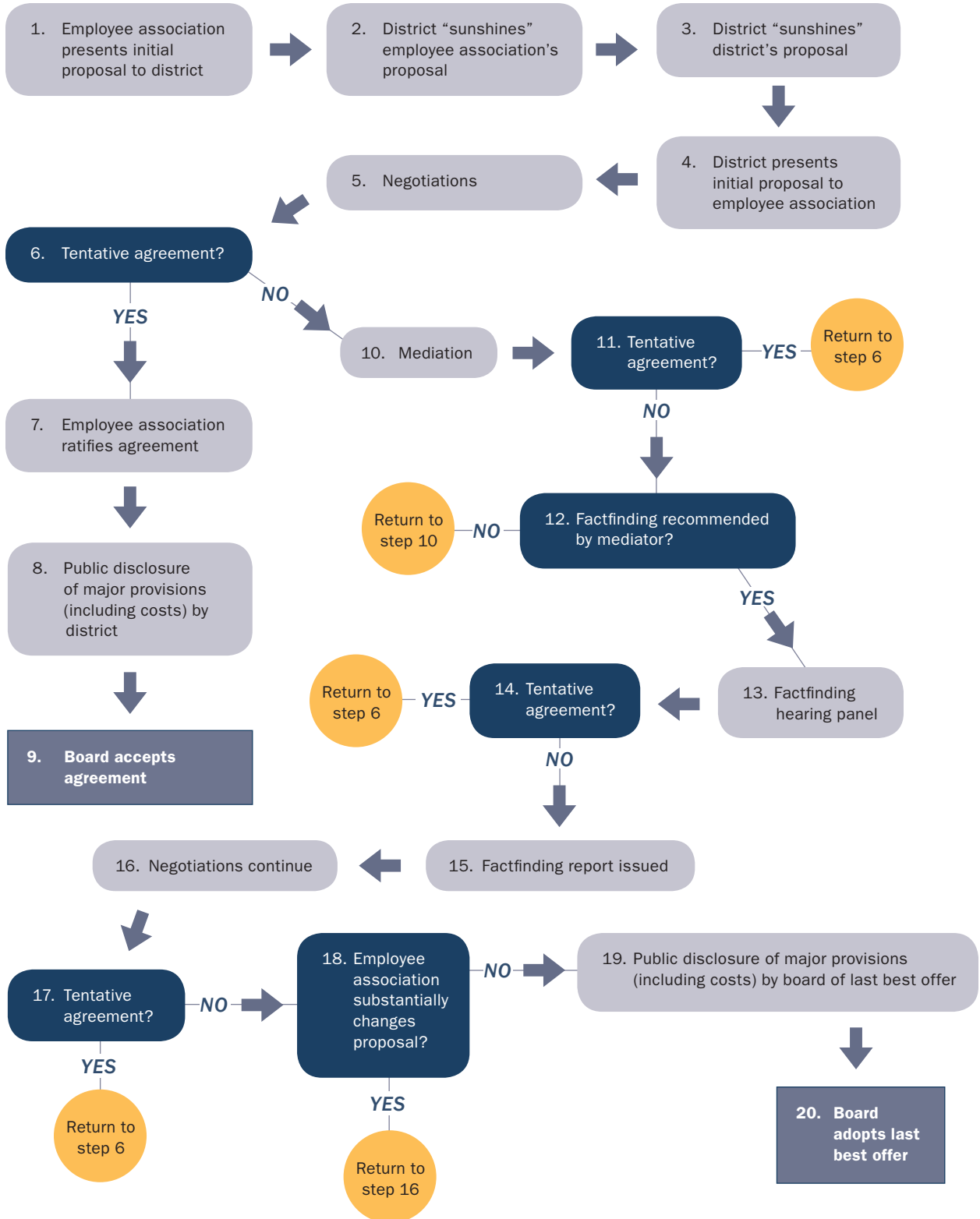
## Collective Bargaining Flowchart and Narrative

1. The collective bargaining process is governed by Educational Employment Relations Act, Government Code Section 3540 et. seq. Negotiations usually begin when the employee organization (exclusive representative) submits its initial proposal to the employer, although the district may also initiate negotiations.
2. Government Code Section 3547 requires that all initial proposals of an exclusive representative and school district be presented at a public meeting of the school district, and that a public hearing be held on the proposals at subsequent public meetings. This process is called “sunshining.” When a board sunshines a proposal, it provides an opportunity for the public to be aware of and comment on the subject matter and proposals being negotiated by the district and employee organization. After presentation of initial proposals, the board has an ongoing duty to sunshine within 24 hours any new subjects under negotiation and the roll call of all votes taken on such subjects.
3. Typically, the district sunshines its proposal after the employee organization’s proposal is released. Providing public notice of the availability of proposals and holding public hearings can take from one to two months to complete. California Code of Regulations, Title 8, Section 32900, mandates that every school district adopt a board policy implementing these public notice requirements.
4. After sunshining its initial proposal, the board adopts its initial proposal and presents it to the employee association.
5. After all proposals are sunshined, negotiations can begin. Government Code Section 3543.7 states that the duty to bargain in good faith requires that negotiations begin in time to reach agreement or resolve an impasse prior to the adoption of the district budget. EERA specifies the scope of what must be bargained (Government Code Section 3543.2) and imposes duties upon both parties related to appropriate conduct (Government Code Sections 3543.5 and 3543.6). Either party may file an unfair labor practice charge against the other party alleging a violation of EERA (Title 8, Section 32615).
6. If both bargaining teams reach tentative agreement, the process concludes with acceptance of the agreement by both parties. If the district and employee organization are unable to reach agreement, one or both parties may declare impasse (Government Code Section 3548).
7. Typically, following tentative agreement, the employee organization membership ratifies the contract first.

8. Government Code Section 3547.5 requires that before the board enters into a written agreement with an exclusive representative, the major provisions of the agreement including, but not limited to, the costs that will be incurred in the current and subsequent fiscal years, be disclosed at a public meeting. Government Code Section 3540.2 specifies that districts whose budgets are certified as qualified or negative must allow the county office of education at least six working days to review and comment on any proposed agreement. In addition, districts whose budgets are disapproved by the county superintendent are subject to review and control by the county superintendent as set forth in the Education Code Section 42127 et. seq.
9. The Government Code Section 3540.1 definition of meeting and negotiating concludes: “a written document incorporating any agreements reached...shall, when accepted by the exclusive representative and the public school employer, become binding upon both parties...” Education Code Section 42142 requires the superintendent to forward any budget revisions necessary to fulfill the terms of the agreement within 45 days of the adoption of the agreement.
10. The statutory impasse procedures begin with mediation (Government Code Sections 3548 and 3548.8). The mediation process consists of the appointment of a professional mediator (also known as a conciliator). These individuals are usually employees of the State Mediation and Conciliation Service, Department of Industrial Relations, although the parties may select another person if they pay the costs. The mediator has no authority other than the power of persuasion and the fact that the parties must participate in the mediation process “in good faith” or risk being charged with an unfair practice by the other side.
11. If mediation produces an agreement, the process of accepting the contract takes place (numbers 7–9 on the flowchart). If mediation does not produce an agreement, the mediator may require that the parties continue negotiations or may declare fact-finding to be appropriate to the resolution of the impasse.
12. If the mediator does not declare fact-finding to be appropriate, the mediator retains jurisdiction and may call for additional mediation. If the mediator declares fact-finding to be appropriate, either party may request that fact-finding take place by notifying the other party in writing (Government Code Section 3548.1).
13. The fact-finding hearing is conducted by a three-member fact-finding panel. Within five days after receipt of a request to proceed with fact-finding, each party selects one member of the panel. Within five days of the selection of panel members, the Public Employment Relations Board selects a chairperson from a PERB-supplied list. (Both sides alternately delete a name from the list until one is left.) Within five days after PERB selection of a chairperson, the parties may agree on a chairperson other than the person appointed by PERB (Government Code Section 3548.1). There are no specific statutory guidelines for how the hearing is conducted; there is, however, a list of specific criteria that the panel must consider when making their findings (Government Code Section 3548.2).



14. Often the parties are notified of the fact-finding recommendations by their panel representatives prior to the issuance of the report and a settlement is reached. If fact-finding results in agreement, the fact-finding report is usually not issued and the process of accepting the contract takes place (7–9 on the flowchart). If no agreement is reached within 30 days after the factfinding hearing or longer if mutually agreed upon, the panel issues an advisory recommendation on the terms of the settlement.
15. The fact-finding recommendations are submitted privately in writing to the parties and must be made public by the employer within 10 days of receipt (Government Code Section 3548.3).
16. Following completion of the impasse procedures, the next steps depend on the previous conduct of the parties and the strategy they each choose to pursue. The parties may continue negotiations. The mediator may continue mediation efforts (Government Code Section 3548.4). The employee organization may decide to go on strike. (PERB has the authority to determine the legality of a strike and whether or not to seek a court injunction against the strike. If the employee organization has participated in good faith in the bargaining process, PERB will most likely not attempt to stop a strike.)
17. If agreement is reached, the parties conclude negotiation by accepting the agreement (7–9 of the flowchart). Absent any agreement and assuming the district participated in negotiations and impasse proceedings in good faith, the board may decide to adopt its last, best offer. Adopting a last offer, however, is a very complicated matter which should only be undertaken with advice of legal counsel.
18. If the employee organization makes substantial changes in its position, the district has a duty to continue bargaining.
19. Public disclosure of major contract provisions is required prior to entering into a written agreement (8 on the flowchart) and should also take place prior to any unilateral action by the district to implement its last, best offer.
20. If the district has gone through the bargaining process in good faith and the employee organization makes no substantive change in its proposals, the district may choose to implement its last, best offer or the district may choose to do nothing and to continue operating under the terms of the expired contract.





## Communication

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## Internal & External Communications Tip Sheet

### ***SPEAK WITH ONE VOICE***

It's easy during crisis situations to point fingers and to make assertions of wrong doing. Never do this in public. That kind of behavior won't help the situation and fragments the governance team. At this point, the focus of the board and district leadership is to steer the district into stable fiscal waters. Work closely with the superintendent on a set of key messages that you and your fellow board members will convey in the community to anyone who might want clarification and information. Work actively to speak with one voice at all times. Stand unified as a team and focus on positive strategies to move the district to a place of fiscal stability.

### ***IDENTIFY THE RIGHT SPOKESPERSON***

The main spokespersons about this situation are: the superintendent, board president and chief business official. Work together as a team on your key messages. A sample message sheet has been provided by CSBA. When media interviews or public speaking engagements have taken place, report back any feedback from those communications situations, and ensure that all necessary questions/follow-up is taken care of. You want the media and public to know that the district is committed to transparency and keeping stakeholders informed.

### ***FOCUS ON YOUR KEY MESSAGES***

There are many things that can be said about qualified and negative certification status. What do your stakeholders really need to know about the situation? Much of what you are discussing with the superintendent is very technical and well beyond the understanding of the average citizen or employee. Keep your messages simple. Shape responses that are positive, constructive, and instill confidence among your stakeholder groups regarding the governance team. A tip sheet has been provided.

### ***COMMUNICATE WITH MANAGERS FIRST; EMPLOYEES NEXT***

Your internal school family is the first audience your governance team needs to communicate with about the district's fiscal status. This task should be handled by the superintendent and the district's leadership team, although the board president may also be involved. Employees are more likely to approach their immediate supervisor with questions. Encourage the superintendent to ask managers to pass along any positive and negative information they may be hearing "in the field" to the superintendent's Cabinet. This will enable the governance team to modify your communication strategy and address any concerns in an open manner.

A tip sheet has been provided for the governance team to help you shape messages that will provide good information and not incite fear. Employees need to have confidence in the board and management team, and feel that appropriate strategies are underway to resolve the situation and preserve jobs.

### ***ANTICIPATE THE TOUGH QUESTIONS IN ADVANCE***

A tip sheet has been provided to get you started. (See Spokesperson Q&A). The media and your community expect you to have most of the answers as the leaders of the district's governance team. If questions become too technical, always defer to the superintendent or chief business official, who are generally very well versed in the technical aspects of the certification process.

### ***PRACTICE YOUR RESPONSES***

Don't speak "off the cuff" regarding the qualified or negative certification. It's too easy for the media or adversaries in the community to take your comments out of context. Write out your responses and practice them until they flow naturally. Never say, "no comment." We have important messages to convey about school financing. Lead the interview and shift to your key messages.

### ***BE ACCESSIBLE***

There's a tendency to hide when crisis strikes. The media, your parents, employees and the public-at-large need to know that you have embraced this challenge and are leading with confidence. Meet with your superintendent and talk about the role that you, as a member of the board, should play in communicating with key stakeholder groups. It's possible that your superintendent and principal will want to handle most communications situations. Negotiate the communications process you will all use, as soon as possible, to ensure the district is speaking with one, unified voice.

### ***MAINTAIN A POSITIVE DEMEANOR***

This is a serious situation. Ensure that your facial expressions are appropriate—but not so serious that you add to the concern of parents, staff and the community based on your expressions. The media and the community need to have the sense that you, as a policy leader and fiscal agent of the district, are on top of the situation and are acting in the best interest of the district's children and families. Instill confidence with all you say and do.

### ***EDUCATE YOURSELF AND SEEK ASSISTANCE***

CSBA stands ready to help you in your role as a key policy leader. Many resources are already posted on the website at [www.csba.org](http://www.csba.org). Other tools and additional webcasts will be hosted in the months ahead to ensure you have the information you need to make good decisions and demonstrate leadership to your district and the community. Additional sessions will also be held on this topic at CSBA's annual education conference.

## Employee Questions & Answers

### *WHAT IS QUALIFIED CERTIFICATION STATUS?*

Twice per year, by law, school districts submit three-year budget projections to their local county office of education. County offices of education are given the authority to approve or disapprove school district budgets. When a district receives a qualified certification, it means that the district may not be able to meet its financial obligations over the next two years. A qualified certification status is a snapshot in time. With the infusion of revenue and changes to the district’s expenditures, districts certified as qualified may be found to be fiscally stable. The qualified status is a warning sign to district leaders that expenditures are out pacing revenues.

### *WHAT IS NEGATIVE CERTIFICATION STATUS?*

When the county office of education evaluates the district’s budget, and a negative certification occurs, it means that the school district cannot meet its current nor its projected fiscal obligations within the next year. This is a serious situation. Without the infusion of revenue and changes to the district’s expenditures, the board of education and district leadership will be forced to eliminate and/or drastically cut programs and services to students. In worse-case situations, the district is taken over by a state-appointed administrator who renders all policy and program decisions in order to repay funds loaned to the district from the state.

### *IS THE STATE TAKEOVER DETRIMENTAL TO THE DISTRICT?*

Yes. When no other loan and cash flow options are available to the district, the district may pursue a state loan. This is the option of last resort. When districts secure a state loan, the state takes over the entire district—every aspect of the district comes under state control. Although a state takeover prevents the district from becoming insolvent and shutting down its operation, a state takeover eliminates local control. The board, district leaders, school leaders and employees have no voice in decision making about the district’s priorities and the instructional program for students.

From a policy standpoint, the district and administrators lose all local decision-making power. The state administrator, who is appointed as the loan is being secured, assumes all authority for decision making. S/he alone determines which cuts will be made to ensure a balanced budget. S/he has the ability to rescind collective bargaining agreements and to suspend contracts. S/he alone determines which student programs and services will remain intact and which ones will be reduced or fully eliminated. If a state-appointed administrator takes over, the superintendent is fired, the board becomes an advisory body only, and all decisions are taken away from the local level to ensure the state’s loan is paid back in full.

Once the state administrator has enacted various cost-control and cost-cutting measures, a state-appointed trustee is assigned for the duration of the loan to continue to monitor and review the operation of the district. When the trustee is appointed, the board resumes its role as the policy-making body. But, the trustee is granted the right to stay and rescind all board decisions. In the 1990s when a handful of districts received negative certifications and were subject to state takeover, the state loans available to them, at that time, were low interest loans. Early payoff of the loans was permissive without financial penalty. However, in recent years, the loans have been available on the open market and are now offered at very high interest rates. Sadly, the districts that find themselves with negative certifications now will have much more difficulty paying down their debt. So, while a state takeover prevents insolvency, it is devastating to the district, schools, employees and students.

Finally, from a fiscal standpoint, districts that receive a state loan are forever in debt. The loans are offered on the open market at very high interest rates. The interest is due on the entire loan value not just the portion of funds used. The loans do not include an early pay-off provision, so districts are stuck paying very high interest rates on the principal amount through the duration of the loan. The districts today that pursue state loans may never get out of debt in the future because of the high interest rates and the inability for early payoff.

### ***HOW DID THE SCHOOL DISTRICT GET INTO THIS SITUATION?***

Since 2008, public schools have been cut by more than \$20 billion. Many schools across the state have been teetering on the brink of fiscal disaster due to deep funding cuts and the deferral of payments delayed from one fiscal year into another.

The deferral of much-needed payments has forced many districts to seek loans to cover monthly financial obligations. The state's funding crisis and the school funding crisis that has ensued, has triggered a record number of districts being certified as qualified and negative. In fact, 188 school districts statewide have received qualified or negative certifications. Many more districts are on the brink of being certified as qualified or negative due to the additional billions of dollars that may be cut from schools in the 2012-13 school year.

### ***WHAT IS THE BOARD OF EDUCATION AND DISTRICT ADMINISTRATION DOING ABOUT THIS PROBLEM?***

Our board of education and administrators are meeting now with county office officials to create short-term and long-term funding solutions to support the fiscal stability of the district.

### ***IS THERE A WAY OUT?***

Yes. To remove a qualified or negative certification, the district needs revenue to alleviate the cash flow issue. In addition, the board and administration must actively look for ways to trim monthly expenditures to ensure a balanced budget. Most districts that are deemed as qualified or negative seek loans to meet financial obligations while also reducing expenditures.

### **HOW DOES A QUALIFIED CERTIFICATION IMPACT EMPLOYEES?**

Fortunately, in the immediate future, both classified and certificated employees will likely not experience any dramatic changes on the job. That is because the qualified certification is a snapshot in time and can change with increased revenue. But this is a very serious warning sign that expenditures will exceed revenues in the future. Strategies are underway to ensure that the district is making the necessary cuts and exploring cost-saving measures to ensure a balanced budget.

When we go back to the table in the spring to revisit our collective bargaining agreements, it is very possible that the qualified certification will be a key topic of discussion. If solutions are not in motion by next spring, the district will need to look for ways to trim operating costs and expenses. *(Customize as needed if your district has made personnel changes that have necessitated changes to the scope of work, work environment or work hours of employee groups.)*

### **HOW DOES A NEGATIVE CERTIFICATION IMPACT EMPLOYEES?**

A negative certification is serious because it affirms that the district cannot meet current fiscal obligations. Without short-term and long-term funding solutions, the board of education and administrators will be forced to reduce expenditures and trim educational programs. Even if the district is successful in securing a loan, it is very possible that we may need to re-examine our existing expenditures. The best possible solution for the district is for the board and governance team to make the tough decisions right away and secure a loan from the county office of education, another local public agency or the county.

If the board and administrators cannot make the needed cuts and secure a loan from one of these preferred sources, we may need to secure a state loan to remain solvent. A state loan is the worse-case scenario. When a state loan is granted, the district will be taken over by the state. The superintendent will be fired. A state-appointed administrator will render all decisions about cuts to positions, programs and services. The board will remain intact as an advisory body only not as a policy-setting body. *(Modify accordingly based on your district's situation.)*

### **COULD EMPLOYEES LOSE THEIR JOBS?**

It is possible that employees could be laid off if the district has a negative budget certification. When a district's fiscal status is affirmed as negative, the district is at risk of state takeover. At this time, 12 districts statewide are in this predicament. When the state takes over, the local district loses all decision-making power. The state administrator will render all decisions about which positions stay and which ones will be eliminated.



### **WHAT ARE THE LONG-TERM IMPLICATIONS FOR THE OVERALL QUALITY OF EDUCATION WITHIN THE DISTRICT AS A RESULT OF A QUALIFIED CERTIFICATION?**

The board of education, superintendent, district leaders and all the principals are committed to maintaining a quality educational program at every school across the district. This goal has become increasingly more difficult for the school district to sustain because public schools are grossly under-funded statewide. California currently ranks 47th out the 50 states in per-pupil spending. Since 2008, K-12 schools statewide have sustained \$20 billion in cuts. *(Districts should customize their response if the instructional program has already been impacted by the cuts to date.)* In some districts, the excessive budget cuts have necessitated changes to the instructional program and the extra-curricular and non-academic offerings available to students. Unfortunately, with the additional cuts to schools that are proposed in the 2012-13 state budget, it is getting harder and harder to keep the cuts away from the classroom. A qualified certification is a sign that more program and service cuts are likely on the horizon.

### **WHAT IS THE LONG-TERM IMPACT ON PROGRAM QUALITY FOR NEGATIVE/QUALIFIED DISTRICTS?**

The board of education, superintendent, district leaders and all the principals are committed to maintaining a quality educational program at every school across the district. This goal has become impossible to sustain because public schools are grossly under-funded statewide. Since 2008, K-12 schools statewide have sustained \$20 billion in cuts. *(Districts should customize their response if the instructional program has already been impacted by the cuts to date.)* California currently ranks 47th out the 50 states in per-pupil spending. In some districts, the excessive budget cuts have necessitated changes to the instructional program and the extra-curricular and non-academic offerings available to students. If the district cannot determine other funding options and if a state loan is secured, the state-appointed administrator reserves the right to change the educational program and eliminate extra-curricular activities—whatever it takes to ensure the district presents a balanced budget and has the ability to repay the state loan. There is no way that cuts can be kept away from the classroom.

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## Key Messages for Parents and the Community-At-Large

### QUALIFIED STATUS

- Qualified certification signifies that in the current fiscal year or anytime over the next two consecutive years, the district may not be able to meet its financial obligations.
- Qualified status is a warning sign that the district must bring expenditures in line with revenue.
- Schools will continue serving students. Most educational programs and services will not be impacted in the next instructional year.
- The Board of Education and the administration are committed to providing students with a quality education. But, that has been a difficult goal to achieve with the excessive state budget cuts that have triggered the district's qualified certification status.
- Qualified status addresses the long-term fiscal health of the district.
- Parents and students are likely to not see any noticeable changes at their local schools because the certification pertains to the long-term fiscal stability of the district.
- The Board and district governance team are working to identify solutions to restore the district's long-term fiscal health.
- A record number—176 school districts as of spring 2012—have been confirmed as having a qualified budget certification. The reduction and deferral of \$20 billion in school funding statewide since 2008 has impacted the ability of school districts to meet their financial obligations.
- California schools are ranked 47th out of the 50 states in per-pupil funding, and that standing may be lowered in the next school year due to additional projected cuts and deferrals. School districts are projected to be cut by an additional \$5.5 billion in the 2012-13 state budget if new revenue sources are not approved by voters.
- Support your local school and school district. Educate yourself about the school funding crisis.

### NEGATIVE STATUS

- Negative certification signifies that in the current fiscal year or next one, the district will not be able to meet its financial obligations.
- The Board of Education and administration are committed to providing a quality educational program for students. But, that goal is nearly impossible without adequate state funding. The state's funding crisis has triggered a historic school funding crisis and record numbers of districts being certified as qualified or negative.

- 11 other school districts statewide have also been confirmed to have a negative fiscal certification.
- Negative status signifies the need for immediate action; the district lacks the resources to pay its current and projected financial obligations.
- Schools will continue serving students. But, the district governance team will be forced to make cuts to programs and services, as needed, to balance the budget.
- The state's funding crisis has created a historic school funding crisis. Most districts that have been negatively certified are having cash flow issues due to the excessive state budget cuts and deferrals. On average, as much as 1/3 of all state money owed to schools is deferred from month-to-month and even into the next fiscal year.
- Boards of education and administrators are being forced to make difficult decisions and to trim needed programs and services to students because of the lack of revenue.
- The board and district governance team are working to identify solutions to restore the district's long-term fiscal health.
- A record number—176 school districts as of spring 2012—have been confirmed as having a qualified budget certification. The reduction and deferral of \$20 billion in school funding statewide since 2008 has impacted the ability of school districts to meet their financial obligations.
- California schools are ranked 47th out of the 50 states in per-pupil funding, and that standing may be even lower in the next school year due to additional projected cuts and deferrals. School districts are projected to be cut by an additional \$5.5 billion in the 2012-13 state budget if new revenue sources are not approved by voters.
- Support your local school and school district. Educate yourself about the school funding crisis.

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## Draft parent letter (*negative status*)

Dear parents:

As you may have read or heard in local media outlets, our district has received a negative fiscal certification from the (**name of county**) Office of Education. The County Office of Education is given the authority from the California Department of Education to review and approve the budgets of local school districts.

I am writing to explain what this means for our school and your child. A question/answer (Q & A) document is attached.

A negative rating means that our district will be unable to fulfill its current financial obligations and those projected for next year. The board of education and district leaders are meeting now with county office officials to identify options to ensure fiscal stability.

A negative certification status does not mean that we are closing the school-house doors this fall. Nor does it mean that the educational program next year will be radically different from the one your child has experienced this year at our school. However, if the situation is not resolved soon through the infusion of new revenue and reductions in expenditures, programs and services to students could be reduced or eliminated in coming years.

The situation in our district is not unique. Eleven other school districts statewide have also recently received a negative certification. In addition, another 176 school districts have received a qualified certification, which means that they will likely be unable to meet their financial obligations within the next three years. Because of the state's current \$16 billion deficit and the additional funding reductions proposed for schools in 2012-13, the California Department of Education predicts that many more districts will fall into the qualified and negative certification categories in the months ahead if schools don't receive revenue.

Why are so many districts in this situation? More details are provided in the attached Q & A. However, in short, the state has not only dramatically reduced the funds it gives to schools but it also has delayed the receipt of those funds by many months, causing many school districts to take out loans to meet their monthly financial obligations. With less money to operate schools and with the money coming months after the funds are needed, many districts are experiencing serious cash flow problems. The cash flow problems, which have resulted from the state funding crisis and the excessive cuts to schools, have triggered a record number of qualified and negative certifications.

I urge you to review this Q&A. Please feel free to ask me any questions you may have about this situation. In the fall, I will be sharing more information about the school funding crisis. Until then, continue to support our school and school district, and know that our board of education and leadership are actively working on a solution to ensure the long-term fiscal stability of the district.

Sincerely,  
Name of principal

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## Draft parent letter (*qualified status*)

Dear parents:

As you may have read or heard in local media outlets, our district has received a qualified fiscal certification from the (**name of county**) Office of Education. The County Office of Education is given the authority from the California Department of Education to review and approve the budgets of local school districts.

I am writing to explain, briefly, what this means for our school and your child. A question/answer (Q&A) document is attached.

A qualified certification means that our district—within the next three-year budgetary cycle—will likely be unable to fulfill its financial obligations, and will be unable to approve a balanced budget.

A qualified certification doesn't mean that we are closing the school-house doors this fall. Nor does it mean that the educational program next year will be radically different from the one your child has experienced this year at our school. Parents and students will not see anything unusual ... a qualified certification status has to do with the long-term fiscal health of the district.

A qualified certification rating is a warning sign to our leaders that our expenditures are outpacing our revenue. Many districts—in fact a historic number statewide—(roughly 176) have been designated with qualified certifications. Another 12 are not able to meet their financial obligations in the next year or two. Why are so many districts in this situation? More details are provided in the Q & A. However, in short, the state has not only dramatically reduced the funds they give to schools but they also have delayed the receipt of those funds by many months, causing many school districts to take out loans to meet their monthly financial obligations. With less money to operate schools and with the money coming months after the funds are needed, many districts are experiencing serious cash flow problems. The cash flow problems, resulting from the state's fiscal crisis and the excessive budget cuts to schools, have triggered the record number of qualified certifications.

I urge you to review this Q&A. Feel free to ask me questions about this situation. In the fall, I will be sharing more information about the school funding crisis. Until then, continue to support our school and school district, and know that our board of education and leadership are actively working on a solution to support the long-term fiscal stability of the district.

Sincerely,  
Name of principal

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## Parent Questions & Answers

### *Understanding Qualified and Negative Certification Status*

#### **WHAT IS QUALIFIED CERTIFICATION STATUS?**

Twice per year, by law, school districts submit three-year budget projections to their local county office of education. County offices of education are given the authority to approve or disapprove school district budgets. When a district receives a qualified certification, it means that the district may not be able to meet its financial obligations over the next two years. A qualified certification status is a snapshot in time. With the infusion of revenue and changes to the district's expenditures, districts certified as qualified may be found to be fiscally stable. The qualified status is a warning sign to district leaders that expenditures are out pacing revenues.

#### **WHAT IS NEGATIVE CERTIFICATION STATUS?**

See above. However, when the county office of education evaluates the district's budget, and a negative certification occurs, it means that the school district cannot meet its current nor its projected fiscal obligations within the next year. This is a serious situation. Without the infusion of revenue and changes to the district's expenditures, the board of education and district leadership may be forced to trim programs and services to students. In worse-case situations, the district is taken over by a state-appointed administrator who renders all policy and program decisions in order to repay funds loaned to the district from the state.

#### **HOW DOES A QUALIFIED CERTIFICATION IMPACT MY CHILD?**

In the immediate future, you will likely not experience any dramatic changes to your child's instructional program and the services offered at our school. *(Customize as needed if your district has increased class size or reduced programs or services in order to bring expenditures in line with revenues).*

#### **HOW WILL MY STUDENT'S EDUCATION BE IMPACTED BY A QUALIFIED CERTIFICATION? BY A NEGATIVE CERTIFICATION?**

Because the certification status relates to the long-term fiscal health of the district, you and your child are likely not to see any significant changes to the instructional program or services offered at your local school in the short-term. However, a negative certification is much more serious because it affirms that the district cannot meet current fiscal obligations. Without short-term and long-term funding solutions, the board of education and administrators may be forced to reduce expenditures and trim educational programs.

### **WILL THE QUALITY OF EDUCATION AT MY SCHOOL SUFFER AS RESULT OF THIS CERTIFICATION?**

The board of education, superintendent, district leaders and all the principals are committed to maintaining a quality educational program at every school across the district. This goal has become increasingly more difficult for us to sustain because public schools are grossly under-funded statewide. California currently ranks 47th out the 50 states in per-pupil spending. Since 2008, K-12 schools statewide have sustained \$20 billion in cuts. *(Districts can customize their response if the instructional program has already been impacted by the cuts to date.)* In some districts, the excessive budget cuts have necessitated changes to the instructional program and the extra-curricular and non-academic offerings available to students. Unfortunately, with the additional cuts to schools that are proposed in the 2012-13 state budget, it is getting harder and harder to keep the cuts away from the classroom.

### **WHAT DOES THE CERTIFICATION STATUS MEAN FOR MY CHILD'S EDUCATIONAL CAREER IN THE DISTRICT?**

A qualified certification is a snapshot in time. A district may project that it will have an inability to meet financial obligations in the future. But, that situation may change with improved funding, such as with the passage of a ballot initiative to provide revenue for schools or through funds garnered from the settlement of employment contracts. A change in revenue, along with the reduction of expenditures, can remove or improve the certification status. Parents will likely never see anything different at their local school because a qualified certification relates to the long-term fiscal stability of the school district.

A negative certification is much more serious and requires immediate attention. You may not see any changes at your school initially. However, over time, even with the infusion of revenue, expenditures will need to be brought in line with funding. Thus, you may see a reduction in student programs and services. Many districts commit to limiting cuts to core curriculum classes and concentrate the reductions on the non-academic program areas such as athletics, the arts, student leadership, career development, etc. The decision to reduce or eliminate programs and services will be evaluated carefully by the board and district leadership. If reductions are necessary, every effort will be made to sustain a quality educational program.

### **HOW DOES A QUALIFIED STATUS AFFECT OUR SCHOOL?**

A qualified certification means that the district will be unable to meet its financial obligations over the next three years. When you plan a household budget and your expenses exceed your monthly paycheck, your family adjusts your household budget so that you can pay your rent, buy food, pay the electric bill, etc. Our district has to do the same thing. We need to adjust our expenses, where we can, to bring them in line with the amount of money we receive from the state.

***WHAT IS THE BOARD OF EDUCATION AND DISTRICT ADMINISTRATION DOING ABOUT THIS PROBLEM?***

Our board of education and administrators are meeting now with county office officials to create short-term and long-term funding plans to support the fiscal stability of the district.

***HOW DID OUR DISTRICT GET IN THIS SITUATION?***

Since 2008, public schools have been cut by more than \$20 billion. Many schools across the state have been teetering on the brink of fiscal disaster due to deep funding cuts and the deferral of payments delayed from one fiscal year into another. This is like the government asking you to run your household without a paycheck for a year. That is essentially what the Governor has required of our schools, because he has delayed billions of dollars in payments, forcing districts to seek loans to cover their monthly financial obligations. The state's funding crisis and the school funding crisis that has ensued, has triggered a record number of districts being certified as qualified and negative. In fact, 188 school districts statewide have received qualified and/or negative certifications. Many more districts are on the brink of being certified as qualified or negative due to the additional billions of dollars that may be cut from schools in the 2012-13 school year.

***IS THERE A WAY OUT?***

Yes. To remove a qualified or negative certification, the district needs revenue to alleviate the cash flow issue. In addition, the Board and administration must actively look for ways to trim monthly expenditures to ensure a balanced budget. Most districts that are deemed as qualified or negative seek loans to meet financial obligations while also reducing expenditures.

***IS THERE ANYTHING I CAN DO AS A PARENT REGARDING THIS SITUATION?***

Support public education! Educate yourself about the school funding crisis and the issues that have triggered this unfortunate situation. More information will be shared with you in the fall about the statewide school funding crisis. The U.S. is still one of the few nations in the world that guarantees all children a public education. As parent with a child at our school, educate yourself with the facts and defend this important American democratic institution.



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## Spokesperson Questions and Answers

### *Questions Likely to be Posed by Media*

*This document is for your preparation for media interviews. Do not distribute it to media in this format. Consider taking this template, modifying it and providing it to media as a Q&A.*

#### **WHAT IS QUALIFIED CERTIFICATION STATUS?**

Twice per year, by law, school districts submit three-year budget projections to their local county office of education. County offices of education are given the authority to approve or disapprove school district budgets. When a district receives a qualified certification, it means that the district may not be able to meet its financial obligations over the next two years. A qualified certification status is a snapshot in time. With the infusion of revenue and changes to the district's expenditures, districts certified as qualified may be found to be fiscally stable. The qualified status is a warning sign to district leaders that expenditures are out pacing revenues.

#### **WHAT IS NEGATIVE CERTIFICATION STATUS?**

When the county office of education evaluates the district's budget, and a negative certification occurs, it means that the school district cannot meet its current nor its projected fiscal obligations within the next year. This is a serious situation. Without the infusion of revenue and changes to the district's expenditures, the board of education and district leadership will be forced to eliminate and/or drastically cut programs and services to students. In worse-case situations, the district is taken over by a state-appointed administrator who renders all policy and program decisions in order to repay funds loaned to the district from the state.

#### **HOW DID THE SCHOOL DISTRICT GET INTO THIS SITUATION?**

Since 2008, public schools have been cut by more than \$20 billion. Many schools across the state have been teetering on the brink of fiscal disaster due to deep funding cuts and the deferral of payments delayed from one fiscal year into another. This is like the government asking you to run your household without a paycheck for a year. That is essentially what the Governor has required of our schools, because he has delayed billions of dollars in payments, forcing districts to seek loans to cover monthly financial obligations. The state's funding crisis and the school funding crisis that has ensued, has triggered a record number of districts being certified as qualified and negative. In fact, 188 school districts statewide have received qualified and/or negative certifications. Many more districts are on the brink of being certified as qualified or negative due to the additional billions of dollars that may be cut from schools in the 2012-13 school year.

### **WHAT IS THE BOARD OF EDUCATION AND DISTRICT ADMINISTRATION DOING ABOUT THIS PROBLEM?**

Our board of education and administrators are meeting now with county office officials to create short-term and long-term funding plans to support the fiscal stability of the district.

### **WHO CAN I TALK TO IN ORDER TO GET A STATEWIDE PERSPECTIVE ON THIS ISSUES?**

*Feel free to refer reporters to Laurie Weidner, APR, CSBA's principal director of Communications, at [lweidner@csba.org](mailto:lweidner@csba.org) or 916-669-3244. CSBA has many excellent spokespersons who can field in-depth questions on this issue.*

### **IS THERE A WAY OUT?**

Yes. To remove a qualified or negative certification, the district needs revenue to restore positive cash flow. In addition, the board and administration must actively look for ways to trim monthly expenditures to ensure a balanced budget. Most districts that are deemed as qualified or negative seek loans to meet financial obligations while also reducing expenditures.

### **HOW DOES A QUALIFIED CERTIFICATION IMPACT STUDENTS?**

In the immediate future, parents will likely not experience any dramatic changes to their child's instructional program and the services offered at local schools. This is because the qualified certification is a snapshot in time and can change with increased revenue. It is a warning sign that expenditures will exceed revenues in the future. ***(Customize as needed if your district has increased class size or reduced programs or services in order to bring expenditures in line with revenues. Reporters appreciate concrete examples).***

### **HOW DOES A NEGATIVE CERTIFICATION IMPACT STUDENTS?**

A negative certification is serious because it affirms that the district cannot meet current fiscal obligations. Without short-term and long-term funding solutions, the board of education and administrators will likely be forced to reduce expenditures and trim educational programs. Parents and students are likely to feel the implications of a negative certification because the district governance team must reduce expenditures in order for the district to remain solvent. ***(Modify accordingly based on your district's situation.)***

**WHAT ARE THE LONG-TERM IMPLICATIONS FOR THE OVERALL QUALITY OF EDUCATION WITHIN THE DISTRICT AS A RESULT OF A QUALIFIED CERTIFICATION?**

The board of education, superintendent, district leaders and all the principals are committed to maintaining a quality educational program at every school across the district. This goal has become increasingly more difficult for the school district to sustain because public schools are grossly under-funded statewide. California currently ranks 47th out the 50 states in per-pupil spending. Since 2008, K-12 schools statewide have sustained \$20 billion in cuts. *(Districts should customize their response if the instructional program has already been impacted by the cuts to date.)* In some districts, the excessive budget cuts have necessitated changes to the instructional program and the extra-curricular and non-academic offerings available to students. Unfortunately, with the additional cuts to schools that are proposed in the 2012-13 state budget, it is getting harder and harder to keep the cuts away from the classroom.

**WHAT IS THE LONG-TERM IMPACT ON PROGRAM QUALITY FOR NEGATIVE QUALIFIED DISTRICTS?**

The Board of Education, superintendent, district leaders and all the principals are committed to maintaining a quality educational program at every school across the district. This goal has become impossible to sustain because public schools are grossly under-funded statewide. Since 2008, K-12 schools statewide have sustained \$20 billion in cuts. *(Districts should customize their response if the instructional program has already been impacted by the cuts to date.)* California currently ranks 47th out the 50 states in per-pupil spending. In some districts, the excessive budget cuts have necessitated changes to the instructional program and the extra-curricular and non-academic offerings available to students. If the district cannot determine other funding options and if a state loan is secured, the state-appointed administrator reserves the right to cut or eliminate the educational program and all extra-curricular activities—whatever it takes to ensure the district presents a balanced budget and has the ability to repay the state loan. There is no way that cuts can be kept away from the classroom.



## Community Resources

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## Community Resources

Meeting the needs of students, especially during times of economic crisis, is the collective responsibility of the entire community, including school districts, county offices of education, cities, counties, businesses, public agencies, private entities and community-based organizations. This fiscal crisis presents an opportunity for the school governance team to reach out and work with various community-wide stakeholders to support student success through the continuation of programs and services delivered at your schools.

Ask your superintendent and the district leadership team to work with the board to embrace new collaborations and partnerships to sustain the quality of education at your schools. You may want to craft both a short-term and long-term strategy for success. This general list of categories is the ideal place to begin brainstorming about the resources in your community that may be accessed to assist your schools in the coming school year.

- **Educational foundations, businesses and private foundations.** Educational foundations, local businesses, and private and corporate foundations may be encouraged to provide on-time or occasional donations, supplies or services to address specific needs of a school district/COE.
- **Community clinics, hospitals, community or county mental health agencies or county public health departments.** Depending on local community assets, support for physical, mental and emotional health may be provided by local health entities. In-kind support may include personnel, facilities or other operational support.
- **Non-Profit Community-Based Organizations.** Local organizations can be approached to assist with services such as youth development, mentoring, tutoring, sports and recreation, parent and family engagement. In-kind support may include personnel, facilities, utility costs or other operational support.
- **Use of volunteers and work-study students.** To supplement the work of staff, school districts/county offices of education may seek assistance from parents, community members, other volunteers and high school and/or postsecondary students paid through work-study funds.
- **Federal, state and local grants.** Grants may be available to support specific support services and activities, such as the After School Education and Safety program; 21st Century Community Learning Centers; child care and development funds; Mental Health Services Act funds; Title I funds for educationally disadvantaged students; federal Health Resources and Services Administration grants for school health center facility construction, renovation and equipment and for expansion of federally qualified health centers' services into schools; McKinney-Vento Homeless Assistance Act funds; and community development block grants.