

**Education Aid/Pension Adjustment
Informational Session
April 9, 2009**

The following is a summary of the questions asked at the informational session on FY 2009 Education Aid and the pension reform adjustment. This session was led by Carolyn Dias, Chief of Operations at the RI Department of Education (RIDE) and Frank Karpinski, Executive Director at the Employees Retirement System of RI (ERSRI).

FY 2009 Education Aid Questions

1. How will the state address cash flow issues for applicable districts?

The state hopes to distribute stabilization funds at the same time as regular education aid. RIDE intends to streamline the application for FY 2009 stabilization funds so that the funds can be accessed quickly. However, districts will have to comply with the federal regulations and reporting requirements.

2. Are the IDEA and Title I funds included in the reduced aid or are they additional funds?

Education aid was only reduced by the federal stabilization funds. IDEA and Title I funds are additional funds; however, districts will have to comply with the categorical requirements for these programs. Very few districts meet the indicators to be able to supplant the IDEA funds. Districts will be able to carry over these funds.

3. Will there be flexibility behind the stabilization funds?

There will be flexibility behind the stabilization funds; however, there will be assurances that the districts need to comply with. Districts will be held accountable for demonstrable improvement across four areas of comprehensive education reform, including improvement in teacher quality and commitments that all schools have highly qualified teachers, development of enhanced PK-20 data systems that track student achievement, development of college and career-ready standards and rigorous assessments that include all students with disabilities and English-language learners, and intensive support and effective intervention for schools that miss their annual targets. Stabilization funds cannot be used for operating costs, such as utilities, plowing, etc.

4. We understand that the state has not received approval to waive the 2006 maintenance of effort provision. What will happen if the state does not get this waiver?

If the 2006 maintenance of effort provision is not waived, RI will have to add general revenue funds to higher education and elementary and secondary education in FY 2009 to restore to the 2006 funding levels. If this does not occur, the state would not be eligible for stabilization funds. Therefore, the FY 2009 revised proposal is contingent on receiving this waiver. RI is waiting for the federal government to issue the application package for these funds. Once we receive and submit this application, we have been told there will be a two week turnaround by the U.S. Department of Education for final approval.

Pension Reform Adjustment

1. How was the pension reform adjustment calculated?

The pension adjustment was derived from FY 2008 total payroll inflated by 4.5%. This adjustment was initially calculated with the assumption that districts would only pay 25% of the employer contribution between February 1, 2009 and June 30, 2009. Because of the timing of the passage of this budget, districts will now pay no employer contributions, effective immediately regardless of what pay period the district is paid up to.

2. The statute refers to the employer contributions being deferred. How can we be sure that we won't owe these contributions in future years?

The word deferred was used because we don't know at this point what pension reform will be passed by the General Assembly. If the Assembly passes no pension reform, the "deferred" contributions, held in the special fund, will be transferred to the retirement trust by the state on the behalf of districts. Once it is known what reform the Assembly has enacted, then the actuary will calculate a new FY 2009 rate. The ERSRI will do a reconciliation of what districts should have contributed for FY 2009 using the new rate, what districts actually contributed to the trust, and the difference. If districts owe for any remaining contributions due, the amount will be transferred from the special fund to the retirement trust. Any withheld education aid in excess of actual savings will be returned to districts. At this point, there will be another FY 2009 revised budget with final education aid numbers that reflect actual pension savings.

3. Why does the ERSRI have to change the employer contribution rate to 0% on the website?

If the rate is not changed to 0%, the system will automatically create an employer contribution receivable and districts will be considered past due on their pension contributions.

4. What if we have recently submitted a check to the retirement board that included the employer contributions?

These checks will be processed and deposited into the retirement trust. Future remittances to the ERSRI should not include the employer contributions.

5. What if upon final reconciliation, we have submitted too much to the retirement trust?

There will be a credit on the account and the applicable districts will not have to submit anything further to the retirement trust until the credit is gone.

6. The timing of the reconciliation is critical. When will we know if we owe anything further to the trust and if there is a credit on our account?

For savings to be realized in FY 2009, the pension reform has to be enacted by the General Assembly by June 30, 2009. Upon final passage, the actuary will provide the ERSRI with a new employer contribution rate for FY 2009. A reconciliation will be done to determine if any aid will be returned to districts. We do not expect that districts will owe additional funds beyond what is being held in the special fund, with the exception of districts that may be significantly delinquent on their contributions or that have had significant changes in their employer base. However, districts and charter schools that had insufficient aid payments to cover the entire pension reform adjustment may receive a final invoice for remaining contributions due.

7. How do we handle the federally funded employees and ensure grants are closed out by the required deadline?

The employer contributions will stop immediately for federally funded employees. Upon final passage of pension reform and determination of the new rate for FY 2009, districts may receive a final invoice for remaining contributions due for federal employees. If pension reform does not get enacted in a timely fashion, RIDE will work with the State Controller to determine if close out dates for federal grants can be extended.

8. How do we reconcile the balloon payment that may be processed at year end for the employees that choose to be paid over 26 pay periods?

The pension reform adjustment was based on the total payroll for FY 2008, inflated by 4.5%. If the same payment structure was in place in FY 2008, the balloon payment is built into this analysis. Any withheld aid in excess of actual savings will be returned to districts. Any deficiency in what is owed to the retirement system will be billed.

9. How do we track the pension expense and post the information into the Uniform Chart of Accounts?

For districts' own auditing and reconciliation purposes, we advise that they continue to track what the employer contribution would have been at the current rate. On a monthly basis, ERSRI will be providing to RIDE what the employer contributions should have been. RIDE will be transferring that amount from the general fund to a newly created special fund. Upon final reconciliation, ERSRI will notify RIDE what amount should be transferred from the special fund to the retirement trust. RIDE has contacted the major accounting software companies, including Unifund, Sunguard, Phoenix, and UNIS. These companies will maintain an archive copy of the payroll information and allow for an import feature. Therefore, districts will be able to bring the payroll into Excel, assign the actuarially determined new rate for FY 2009, and calculate the total employer contribution for pension for the year.