

# 2008-09 and 2009-10 State Budget:

## Initial Analysis

(February 20 version)



In collaboration with  
Blattner & Associates

# About this document

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- ACSA and the K-adult consulting firm of Total School Solutions (TSS), in collaboration with Bob Blattner and Associates, have developed an initial analysis of the recently enacted 2008-09 mid-year reductions and 2009-10 State Budget
- ACSA members and other education leaders are welcome and encouraged to utilize this information in their LEAs and communities



# Overview and Caveats

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- ❑ After a long delay, the 2008-09 and 2009-10 state budget package finally came together amidst a whirlwind of deal making and political drama
- ❑ Budget bill language has only recently become available – our initial analysis is derived from briefings with legislative staff, floor analyses, and review of available budget language
- ❑ It is subject to further clarification as information becomes available
- ❑ It is intended to provide an initial management and programmatic perspective on major reductions and policy flexibility within Proposition 98



# The State of Things

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- Even with a budget package finally in place, the state's financial condition remains critical
  
- Factors education leaders should continue to watch out for:
  - The state's credit rating is at junk bond status – below that of Louisiana
  - State revenues are projected to continue dropping through 2009 and into 2010
  - The state will continue to experience cash flow difficulties – which will likely become our difficulties
  
- K-adult education will experience historic mid-year and budget year reductions
  
- If revenues continue to drop, additional 2009-10 reductions are possible
  - We'll have a better feel for this as we get closer to the May Revision



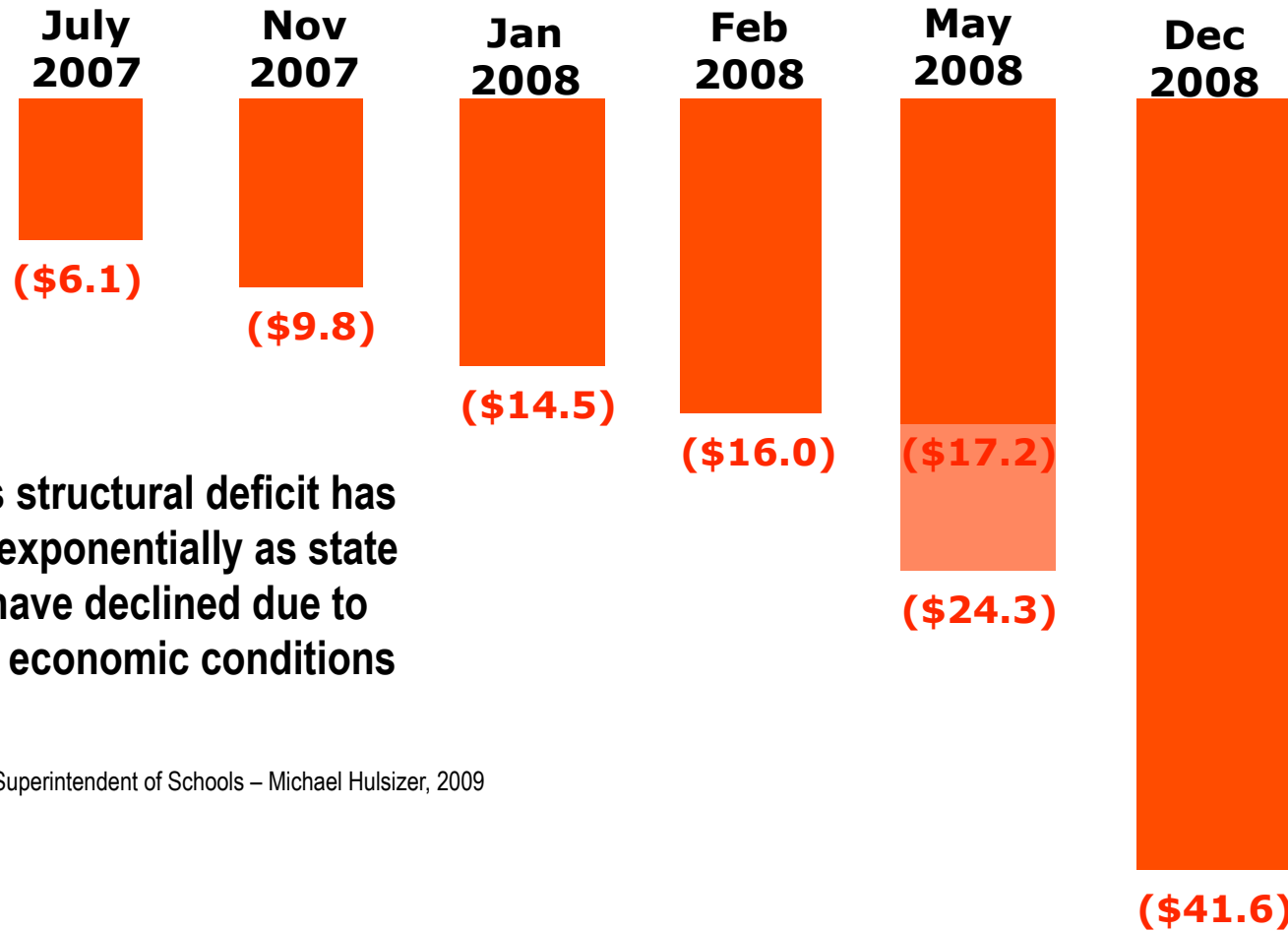
# Why This Budget Crisis is Different

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- Six elements make this budget crisis unlike any other – and more challenging:
  1. A chronic structural budget gap has existed most of this decade
  2. The economics are different – this economic downturn is widespread and the worst we have seen since the Great Depression
  3. There are more budget “lock-ins” than before
  4. Our politics are deadlocked – gerrymandered legislative districts, political polarization among Democrats and Republicans, term limits, etc.
  5. The state’s revenue system is highly volatile
  6. Enormous social and demographic changes – our governance system has not kept pace with the rapid changes occurring in California

**All of these remain in place going into 2009-10**

# A Growing State Deficit (in Billions)



The state's structural deficit has increased exponentially as state revenues have declined due to worsening economic conditions

Source: Kern County Superintendent of Schools – Michael Hulsizer, 2009

# A Tumultuous Decade: \$13.4 Billion in Lower Prop 98 Spending

Source: Kern County Superintendent of Schools – Michael Hulsizer, 2009

<b>2001-02</b>	<b>\$2.2 Billion Total</b>		
	➤ \$583 Million (Mid-Year Reductions) (High Priority School Grants, Teaching as A Priority Block Grants, Certificated Staff Performance Awards, Energy Grants, 9 <sup>th</sup> Grade CSR, Cal-Safe)	February 2002	
	➤ \$503 Million (Prior-Year Reversions) Backfill of Adult Education Reductions	June 2002	
	➤ \$1.124 Billion (Categorical Deferrals)	June 2002	
<b>2002-03</b>	<b>\$2.61 Billion Total</b>		
	➤ \$1.3 Billion (June Apportionment Deferral)		March 2003
	➤ \$460 Million (K-12 Funding Reductions)	May 2003	
	➤ \$734 Million (K-12 Prior-Year Reversions to Backfill Cuts)	June 2003	
<b>2003-04</b>	<b>\$1.468 Billion</b>		
	➤ \$1.048 Billion (Prior-Year Reversions to fund Deferral)	June 2004	
	➤ \$341 Million (Prior-Year Reversions to Fund TIG Grants and Child Care)	June 2004	
	➤ \$127 Million (New Federal IDEA Funds to backfill reduced State Special Education contribution)	June 2004	
<b>2007-08</b>	<b>\$507 Million</b>		
	➤ \$211 Million in Current-Year Reversions	February 2008	
	➤ \$295.4 Million in Prior-Year Reversions	February 2008	
<b>2008-09</b>	<b>\$6.572 Billion</b>		
	➤ \$2 Billion (RL and categorical reduction, no COLA)	February 2009	
	➤ \$2.8 Billion (February RL/CSR/CC Apportionment Deferral)		February 2009
	➤ \$1.1 Billion (Use of Prior-Year Prop. 98 "Settle-Up")	February 2009	
	➤ \$619 million (Home-to-School Funding Swap)	February 2009	
	➤ \$153 million Prop. 98 Reversions	February 2009	



# Implications to K-Adult Funding

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- ❑ Proposition 98 funding is directly linked to the overall health of state revenues
- ❑ All LEAs will face a prolonged state of fiscal uncertainty through 2010-11
- ❑ The following threats remain a possibility during this timeframe:
  - Additional revenue limit reductions
  - Zero COLAs thru 2010-11
  - Apportionment deferrals and subsequent cash flow difficulties
  - Further reductions to categorical program funding
  - Proposals to manipulate Proposition 98 funding
  - Limited state school construction funding



# The Budget “Correction” Package

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- This proposal is a two-year package:
  - 2008-09 mid-year K-adult reductions and funding deferrals
  - 2009-10 budget proposal (w/ additional reductions and deferrals)
  
- Lowers the Proposition 98 funding level in the current and budget years
  
- Requires voter approval of a five special election ballot proposals
  - All of them have to pass in order for the plan to hold together
  - One of them includes future restoration of the Proposition 98 maintenance factor – Prop. 1C
  - Special election scheduled for May 19, 2009



# K-Adult Funding: 2008-09

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- Reduces current year Proposition 98 funding by more than \$6 billion – via mix of program reductions, deferrals, and re-designation of funds
  
- 2008-09 program reductions total is \$1.9 billion
  - Eliminates the 0.68% COLA (No COLA for 2008-09)
  - Remaining reduction is split:
    - 50% from revenue limits - \$944 million overall, about \$160 per ADA\*
    - 50% from a 15% (\$944 million overall) across-the-board cut to specified categorical programs

\* NOTE: Actual RL reduction amounts will vary per LEA

# 2008-09: Categorical Cuts and Flexibility

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- Categorical programs are divided into three tiers for purposes of protecting some and providing flexibility to others
  - Tier I:
    - No funding reduction, no program flexibility, no statutory requirements waived (w/ exception of CSR penalty provisions)
  - Tier II:
    - Funding reduction of approximately 15% from 2008-09 previously enacted levels, but no flexibility, and programs are to be operated according to the current requirements
  - Tier III:
    - Funding reduction of approximately 15% from 2008-09 levels, but with maximum flexibility to move funding for any educational purpose
  
- Changes are in effect for this fiscal year and until 2012-13



# Tier One Categorical Programs

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- No reduction and no flexibility:
  1. Child Development
  2. Child Nutrition
  3. Economic Impact Aid
  4. K-3 Class Size Reduction
  5. Proposition 49 After School Programs
  6. Special Education
  7. Quality Education Investment Act
  8. Home-to-School Transportation

NOTE: We are researching if AVID is a “Tier one” program

# Tier Two Categorical Programs

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- 15% reduction and no flexibility:
  1. Adults in correctional facilities
  2. Partnership Academies
  3. Apprenticeship Programs
  4. State Testing
  5. English Language Acquisition Program
  6. Agriculture-Vocational Education
  7. Foster Youth
  8. Charter School Facilities Grants
  9. K-12 High Speed Network
  10. Multi-Track YRE



# Tier Three Categorical Programs

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- 15% reduction but total flexibility to shift funding to any other educational purpose (including to unrestricted GF):
- All remaining K-adult Proposition 98 categorical programs
- Tiers and associated flexibility apply to state categorical programs only – not Federal

# Tier Three List

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Targeted Instructional Improvement Block Grant

Adult Education

Regional Occupational Centers and Programs

School and Library Improvement Block Grant

Supplemental Instruction

Instructional Materials

Deferred Maintenance

Professional Development Block Grant Program

Supplemental School Counseling Program

Charter School Categorical Block Grant

Teacher Credentialing Block Grant

High Priority Schools Grant Program

Arts and Music Block Grant

Class Size Reduction - 9th Grade

School Safety Block Grant (8-12)

Pupil Retention Block Grant Program

CA High School Exit Exam-Instructional Support and Services

CA School Age Families Education

Math and Reading Professional Development

Gifted and Talented

Peer Assistance and Review

School Safety Competitive Grants

County Offices of Education - Fiscal Oversight

Certificated Staff Mentoring

County Office of Education - Williams Audits

Specialized Secondary Program Grants

Principal Training Program

American Indian Education Centers

Child Oral Health Assessments

National Board Certification Incentives

Advanced Placement Programs

Bilingual Teacher Training

American Indian Early Childhood Education Centers

Reader Services for the Blind

Civic Education

Teacher Dismissal Apportionment

CA Association of Student Councils Sanctions

Chief Business Officers Training Program



# Elimination of Current “Mega Item”

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- The budget bill would eliminate the current “Mega Item” (Control Section 12.40) categorical flexibility provision
- Would be replaced by the broader flexibility package outlined in prior slides
- AB 825 block grants?
  - Not sure what happens to existing AB 825 Block Grant provisions
  - However, proposed Tier 3 categorical flexibility is broader – recommend LEAs take advantage of that proposal first



# K-3 CSR – Revised Penalties

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- Changes to the penalty provisions of K-3 CSR should a class exceed the current ratio of 20.4 to 1
- All other statutory requirements remain – Max. class size remains

<u>Student to teacher ratio</u>	<u>New penalty</u>
Up to 20.44	No penalty
20.45 – 21.44	5%
21.45 – 22.44	10%
22.45 – 22.94	15%
22.95 – 24.94	20%
24.95	30%

- Specifies that districts are only eligible to receive funding under these relaxed requirements if participating in K-3 CSR as of December 10, 2008

# Instructional Materials Flexibility

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- The proposal provides for the suspension of statutory requirements for LEAs to purchase newly-adopted instructional materials for 2008-09 and 2009-10
  
- COEs are relieved from the responsibility of confirming such purchases during site visits – but COEs will continue to conduct site visits for purposes of determining sufficiency
  
- LEAs that exercise this flexibility option must still comply with current statutes and requirements (i..e. *Williams Settlement*)
  - Materials must be standards-aligned
  - One set of materials per student
  - Materials in good condition
  - Districts must continue to hold annual hearings regarding sufficiency per current law (Education Code sections 60019 and 60119 remain in effect)



## Instructional Materials Flexibility (cont.)

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- LEAs in the final stages of piloting math materials are recommended to analyze this option per their own circumstances
- Be considerate of your LEA's academic and materials needs – What effect would delaying adoption have on out-year academic performance?
- Districts that do purchase materials in these years remain subject to current statutory requirements



# Prior Year Categorical Balances (sweep ups)

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- LEAs are authorized to access ending fund balances as of June 30, 2008 (and from the 2007-08 FY only) from the restricted categorical program accounts for any educational purpose
- Following programs are excluded:
  - Economic Impact Aid
  - Targeted Instructional Improvement Grants
  - Instructional Materials
  - Special Education
  - Quality Education Investment Act
  - California High School Exit Exam
  - Supplemental Instruction
  - Home-to-School Transportation



## Other Flexibility

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- Routine Restricted Maintenance Transfer – LEAs are authorized to reduce transfer to RRM account from 3% to 1% of total General Fund budgets for current year and until 2012-13
- Deferred Maintenance – Eliminates local 0.5% statutory match for deferred maintenance for current year to 2012-13



# No Changes to the Following

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- AB 1200/2756 Reserve for Economic Uncertainty – no change to current law
  - LEAs required to meet minimum statutory reserves as of July 1, 2009
  
- Minimum number of instructional days and minutes remain (180 days)
  - Governor's proposal to allow LEAs to reduce instructional days is not in the final package
  
- No suspension of K-adult mandates as proposed by the governor
  - LEAs recommended to continue processing claims and maintain records
  - **NOTE** – The Special Education Behavioral Intervention Plan lawsuit is not funded (\$65 million) in 2009-10



# Apportionment Deferrals

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The budget proposal creates new apportionment deferrals as follows:

- Defers \$2 billion in RL apportionments (approx. \$339 per ADA) and \$570 million in K-3 CSR apportionments (about half) from February '09 to July '09
- Defers \$1.2 billion in K-14 apportionments from July '09 to October '09
- Defers \$1.5 billion in K-12 apportionments from August '09 to October '09
- Increases the current "P2" June to July deferral by \$340 million

Further analysis and details of these proposals will be provided later

# 2009-10 Budget Reductions

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- Eliminates \$2.5 billion in Proposition 98 funding from 5.02% statutory COLA for school districts and COEs
  - Increases the Proposition 98 deficit factor by 4.529%
  
- Additional \$530 million reduction to the Proposition 98 base – off of 2008-09 revised base
  - \$265 million reduction to revenue limit funding (school districts and COEs) – approx. \$45 per ADA
  - \$265 million in additional across-the-board reductions (4.9%) to Tier 2 and 3 categorical programs reduced in 2008-09
  
- \$114.2 million savings from elimination of the High Priority School Grant Program

# Proposition 98 Out-year Funding

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- The budget proposal includes several provisions that will impact future Proposition 98 funding:
  - Budget Stabilization Fund – ACA 3X 1 (Niello)
  - Proposition 98 repayment plan – ACA 3X 2 (Bass)
  - Other ballot measures – Lottery Securitization, State Spending Cap
  
- These proposals will be further analyzed to determine overall impacts to future Proposition 98 funding and integrity – education leaders recommended to focus on mid-year and budget year reductions at this time



# LEA Budget Planning

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## Assumptions for budget planning:

- Work with your COEs to determine the fiscal criteria necessary for AB 1200 Second Interim reports and multi-year assumptions
- 2008-09 Mid-year reductions and apportionment deferral are likely to remain unchanged
- 2009-10 K-adult reductions will be subject to possible changes depending on budget year revenue projections
- Further 2009-10 reductions are possible post May Revise if revenues are below forecast
  - NOTE: May Revision release postponed to about May 25 or 26 due to May 19 special election
- LEAs will continue to face threats of additional apportionment deferrals in 2009-10 and beyond

**Fiscal conditions will remain uncertain through 2010-11**

# Revenue Limit Deficit Factors

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## School Districts

2008-09: 7.844%

2009-10: 13.094%

## County Offices

2008-09: 7.839%

2009-10: 13.360%



# Multi-year Projections

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Recommend that LEAs project and budget for ZERO revenue limit COLA for 2008-09 through 2010-11

The state will likely not be in a position to fund RL COLA during these years

Work closely with your COEs for upcoming second interim reports and 2009-10 budget development / adoption

# Future Threats to Cash Flow

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- ❑ The state will continue to face cash flow difficulties – as such, they will undoubtedly pass their problems on to us
- ❑ LEAs will face the threat of further education funding shifts and/or program funding delays going into the budget year
- ❑ LEAs should continue to closely monitor their cash flow status on a monthly basis
- ❑ Problems in the financial markets will likely equate to higher interest costs from borrowing
- ❑ Begin preparations for TRANs and/or intra-fund borrowing now



# Federal Stimulus Package: What to Keep in Mind

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- It's a silver lining in an otherwise dark cloud, but keep things in perspective:
  - It is one-time money - treat it that way
    - There is a chance that the special education and Title I dollars will become permanent, but it is too early to tell
  - LEAs won't see the money until after July 1, 2009 – first installment (approximately 25%) will come in September
  - It doesn't solve the state's long term structural budget gap
    - Roughly \$8 billion of the package has already been spent to put the state budget together
  - But it will help to offset budget year reductions and give LEAs additional programmatic and fiscal options



# Federal Stimulus Package: The Bottom Line

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- ❑ Don't factor this funding into your revised 2008-09 and 2009-10 budget proposals
- ❑ Don't factor it into your multi-year projections just yet – continue to utilize the criteria and methodology established by your COE
- ❑ Treat it as one-time funding
- ❑ Wait for instructions from the Feds, CDE, and your COE



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