



July 31, 2009

TO: ACSA Leadership and members
All interested parties

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RE: **2009-10 Final Budget Revision Analysis**

Tuesday, the governor finalized the revisions to the 2009-10 Budget Act by signing the budget legislation passed by the Legislature. The governor, of course, could not hold his pen and vetoed approximately \$500 million from the budget for good measure. The veto language included reducing program funding for the Healthy Families Program, funding for the California Department of Education (CDE) and several other social services programs. Fortunately, there were no line item vetoes to programs contained in K-adult education.

ACSA mentioned last week after the budget was finally passed that the budget language was yet to be publicly released. However, by Friday afternoon the language was finally made public. ACSA has reviewed the language and below is a broader analysis of the entire education budget in addition to several budget trailer bills that will impact education funding in the future.

Proposition 98

As is always the case with the Proposition 98 minimum guarantee, as the General Fund revenues ebb and flow so does the calculation for the minimum guarantee. Over the past 12 months, General Fund revenues have continued to fall. Therefore, the calculation for Proposition 98 has caused the minimum guarantee to also fall. The minimum guarantee has dropped from \$58.1 billion in the 2008 Budget Act down to \$50.7 billion in the February Budget Act and finally certified at \$49.1 billion for the 2008-09 fiscal year. Similarly, the minimum guarantee for the 2009-10 fiscal year dropped from \$54.9 billion in the February Budget Act down to \$50.4 billion.

The guarantee is also adjusted by the deferrals and categorical sweep contained in the Budget Act in addition to the shifts of the redevelopment shift of local property taxes. These provisions will be discussed later. The budget makes approximately \$6 billion in cuts as follows:

- \$1.6 billion in "unallocated" categorical programs for 2008-09
- \$2.6 billion in 2009-10
- \$1.7 billion in deferrals to 2010-11

2008-09 Budget Reductions

In an effort to prevent a suspension, the budget contains some Harry Potter magic by finding an innovative method to reduce the 2008-09 minimum guarantee after the fiscal year ended on June 30th. This included a complicated process of taking categorical funding from a source of funding that had yet to be "unallocated" or "liquidated" to schools. There was approximately \$1.6 billion available in a source of funds with the State Controller that the checks had yet to be written and sent to school districts. The belief is that since this funding had yet to be "actually" sent to school districts, it was available for the Legislature to recoup for a General Fund Savings. To be clear, this money was likely earned by districts throughout the year and is completely different than the Legislature "sweeping"

categorical funding that was not spent by school districts. Whether the funding was earned or expected as payment for fulfilling program requirements is irrelevant for these purposes. The purpose of this categorical take was to reduce the Proposition 98 base in an effort to prevent a suspension.

Here is a list of the categorical funds and their current funding levels that were unallocated:

Dept Mental Health	(\$12,256,628)
Apprentice	(\$1,403,709)
Supplemental Instruction	(\$8,921,610)
ROC/P	(\$32,359,581)
FCMAT	(\$252,000)
7-12 Counseling	(\$176,908,000)
Assessments	(\$26,732,164)
Foster Youth	(\$6,540,535)
Specialized Secondary Programs	(\$3,911,000)
High Priority	(\$90,492,100)
GATE	(\$767,061)
ELAP	(\$53,533,000)
EIA	(\$205,749)
Math & Reading PD	(\$48,003,000)
Principal Training	(\$4,146,000)
American Indian Early Education	(\$2,904)
Adult Ed	(\$19,691,825)
Adults in Correctional Fac	(\$2,522,553)
Special Ed	(\$493,295,640)
Partnership Academies	(\$8,612,600)
Ag/Voc Ed	(\$20,379)
Ed Tech	(\$64,637)
Community Day Schools	(\$551,546)
Staff Dev	(\$5,067,793)
National Board Certification	(\$3,385,000)
Child Development	(\$233,806,509)
CalSAFE	(\$27,965,147)
Child Nutrition	(\$1,017,000)
Child Nutrition (from Mega)	(\$6,717,856)
Teacher Dismissal Apportionments (from Mega)	(\$19,514)
Charter Schools	(\$17,047,135)
Charter School Facility Grants	(\$8,054,052)
School Safety	(\$45,926,000)
High School Class Size Reduction	(\$50,252,306)
Class Size Reduction	(\$241,243)
Advanced Placement Grant Program	(\$1,662,630)
Teacher Credentialing Block Grant	(\$45,425,176)
Professional Development Block Grant	(\$12)
School Safety Competitive Grant	(\$14,959,417)
Arts & Music Block Grant	(\$37,998,248)
Certificated Staff Mentoring	(\$9,060,000)
Oral Health Assessments	(\$1,698,856)
Mandates	(\$38,000)
Home to School Deferral	(\$13,114,425)

Community Day School Deferral	(\$2,356)
GATE 2002-03 Deferral	(\$31)
School Safety Deferral	(\$11,367)
ROC/P Deferral	(\$1,790,906)
After School Education and Safety	(\$68,164,309)
Summer School 2002-03 Deferral	(\$15,560,138)
Alternative Credentialing	(\$5,733,537)
Total	(\$1,605,913,184)

There was a recognition that some school districts receive more categorical funding than others, therefore, there would be a disproportionate cut to those districts. To equalize this reduction, the Budget Act reduces school district revenue limits by \$1.6 billion in the 2009-10 fiscal year and then attempts to equalize the categorical cut by reappropriating this money back to school districts in an effort ensure that the reduction is equal across the board.

This is a very controversial and complicated method to prevent a suspension of Proposition 98. This also sets a very dangerous precedent. Education funding currently fluctuates from year to year. Combine this with all the deferrals implemented in the past years and now the ability to take categorical funding whenever it is necessary and education funding now is at risk regardless of when the fiscal year concludes.

2009-10 Budget Reductions

Similar to the February Budget Act, the state budget reduces school district revenue limits by \$2.6 billion in the 2009-10 fiscal year. In exchange the budget provides further flexibility in programmatic changes. These are some of the programmatic changes and revenue limit adjustments:

Deficit Factor – The deficit factor is increased to 18.621 percent for the 09-10 fiscal year for county offices of education revenue limits and 18.355 percent for school district revenue limits.

Instructional Materials – The budget suspends the entire instructional materials adoption process until the 2013-14 fiscal year. In addition, school districts are not required to purchase instructional materials during the suspension. However, school districts are required to provide a standards-aligned textbook for every student and the county office of education will still continue with the Williams audit.

Routine Maintenance – Reduces the amount that school districts need to set aside for routine maintenance from 1 percent down to zero percent. However, school districts that maintain its facilities in good repair are exempt from this requirement. This provision sunsets in 2012-13.

Deferred Maintenance – The State Allocation Board is authorized to release "extreme hardship" deferred maintenance funding in advance of the normal timeline, if it is necessary to avoid serious facility damage or hazard to the health and safety of students. This sunsets in the 2012-13 fiscal year.

Shorter School Year – School districts are authorized to reduce up to 5 instructional days or an equivalent of instructional minutes for the 09-10 fiscal year through the 2012-13 fiscal year.

Sale of Surplus Property – Allows school districts to deposit the proceeds from the sale of surplus school property and personal property into the general fund. The proceeds from the sale may only be used for any one-time general funds purpose and not ongoing purposes. However, school districts that use this provision are ineligible for hardship funding for 5 years. This clause sunsets on January 1, 2012.

California High School Exit Exam (CAHSEE) -- Students with disabilities are exempt from having to pass the CASHEE in order to receive a high school diploma. However, students would still take it in order to comply with the federal NCLB Act of 2001.

Reserves for Economic Uncertainty – The minimum reserve requirement for economic uncertainty is reduced by one-third for school districts. Further, school districts must make progress towards restoring reserve levels in 2010-11 and fully return to original reserve levels by 2011-12.

For the 09-10 fiscal year, county superintendents of schools are prohibited from assigning a qualified or negative certification to a school district based substantially on a projected loss of federal funds provided through the federal State Fiscal Stabilization Fund of the American Recovery and Reinvestment Act of 2009 in the 2011-12 fiscal year.

Categorical Flexibility – The base year for categorical programs is the 2007-08 fiscal year. In addition, the ADA calculations for adult education and ROCPS are made using the 2007-08 fiscal year as the base year amount. Clarifies that school districts in "Program Improvement" and those who have received a federal correction action sanction by the State Board of Education shall not be prohibited from using categorical flexibility.

School districts are required to use the SACS code to indicate the activities for which schools use categorical funding. Further, school boards must explicitly state for what purposes categorical funding will be used.

Teacher Credentialing – Removes statutory language that ties the minimum requirements for a professional clear multiple or single subject teaching credential to budget act funding for beginning teacher induction programs, to clarify that the requirements that apply to individual teacher credentials are not contingent on district decisions to offer teacher induction programs.

Basic Aid Districts – Basic Aid District categorical funding is reduced by calculating a proportionate reduction similar to the school district revenue limit reduction for non-basic aid districts. This amount equals about \$80 million.

Categorical Ending Balances – The access to the ending balance for categorical programs is expanded. In the February Budget Act there were several programs that were exempted from this access. These included the Targeted Instructional Improvement Grant and CAHSEE Intervention. These programs are no longer exempted and are replaced by the following: English Learner Acquisition and Development Pilot Program child development programs and child nutrition programs.

High Priority schools Grant Program – This program is eliminated.

Quality Education Investment Act (QEIA)

In another attempt at slight of hand, the Budget Act cuts the General Fund expenditure for QEIA and replaces the funding through a questionable tactic. This shift provides the General Fund with \$450 million: \$402 million from K-12 education and \$48 million from California Community Colleges.

Those school districts receiving funding for QEIA funds will have their revenue limit reduced by a corresponding amount received for QEIA funding. Then these QEIA school districts are "authorized" to apply for federal Title I funding through the School Improvement Grant program. Lastly, the QEIA program is extended for an additional year to the 2014-15 fiscal year.

ACSA recognizes that this funding shift leaves more questions than answers. For example, it is unclear how those districts that are ineligible for federal funds will recoup the funds lost because their revenue limit is reduced. Also, there is no guarantee that districts will automatically receive the federal funds. There is currently no deficit factor being created for any district that is cut because of the shift of QEIA funds. Also, many districts may believe that

dropping out of the program for a year may be the better option instead of receiving a revenue limit reduction. However, ACSA warns that under QEIA, once a district drops out of the program that district is prohibited from entering the program again. Finally, it is unclear how this impacts other programs funded by the same federal Title I programs or if the federal government believes there is a supplanting issue which could cause California to face penalties or the loss of federal funding.

Needless to say, the QEIA shift is complicated and it is quite likely that many school districts will be on the losing end of this action. It is possible that we might see some clean-up language during the final month of the legislative session.

Maintenance Factor

One of the few bright spots of the budget is the establishment of the repayment of a maintenance factor to the tune of \$11.2 billion. The Budget Act certifies the Proposition 98 minimum guarantee and the maintenance factor created in those fiscal years starting with the 2005-06 fiscal year and ending with the 2008-09 fiscal year. The certification is especially important because regardless of how the decrease in revenues impact the minimum guarantee, the actual funding level is set in statute to clarify the actual number to be paid back to schools. The Budget Act unfortunately does not establish a payment schedule similar to that contained in the failed Proposition 1B. Instead the maintenance factor will be paid back as it would under current constitutional requirements. Therefore, once the economy turns around and the revenues are increased, schools will begin to receive maintenance factor repayments.

Redevelopment Agency Shift

The budget shifts \$1.7 billion in redevelopment revenues to the Supplemental Educational Revenue Augmentation Fund in 2009-10, thereby benefiting the State General Fund. An additional \$350 million is shifted in 2010-11. These funds will then be allocated to a K-12 school district or county office of education located partially or entirely within any project area of the redevelopment agency in proportion to the average daily attendance of each school district. The auditor must then reduce the allocation of property taxes to the school district in an amount equal to the amount transferred from redevelopment agencies and deposit those funds in the SRAF. Complying redevelopment agencies receive a one-year extension for the 2009-10 shift.

Child Care

The Budget Act restores some programs for child care services but eliminates others. The funding for CalWORKs families and families transitioning off of CalWORKs was retained as was the funding for ROC/P and Adult Education CalWORKs services. However, the Extended Day Care (Latchkey) program is eliminated, although funding is provided until the start of the 2009-10 school year. Further, the Regional Market Reimbursement rates are set at 2005 levels, and only provides reimbursement up to a maximum of the 85th percentile.

Charter Schools

The budget clarifies the Charter School Facility Grant Program by converting funding from a reimbursement basis to a grant basis commencing in 2009-10, allowing the program to receive funding in the same year it is earned. The Budget Act clarifies that school districts that receive funding on behalf of charter schools would be prohibited from redirecting funding for other purposes. The Budget Act also requires CDE to adjust the funding for the apportionment from charter school categorical block grant similar to the reductions that categorical programs received in the February Budget Act.

Cash Deferrals

As mentioned above, the budget defers billions in cash payments to school districts. The deferrals include:

- Intra-Year Deferral – Shifts \$1 billion in K-12 revenue limit payments from October to December of 2009 and shifts an additional \$1 billion in apportionment and shifts an additional \$1 billion from November 2009 to January 2010.
- Inter-Year Payment Deferrals -- \$1.7 billion deferred from 2009-10 to 2010-11. This includes \$678.6 million in April payments and \$1.0 billion in May payments that will be shifted to August of 2010-11.

The budget also revises the K-12 School Payment Schedule. The revised payment schedule is as follows: 5 percent in July, 5 percent in August, and 9 percent in each month thereafter (September through June).

Budget Line Item Vetoes

There were no line item vetoes to program budgets. The majority of the vetoed items were to CDE budgets. These include the following:

- \$705,000 to the California Department of Education to reduced costs in the Curriculum Development Commission and Supplemental Materials Commission given the change in the budget trailer bills that created a 5-year moratorium on new textbook adoptions.
- \$3,894,000 in Proposition 98 funds that had been budgeted for student transportation at State Special Schools. Because the legislature provided federal funds for this purpose, the governor is deleting this duplicate funding.

Final Comments

Even though this budget contains many items that everyone dislikes, there are a few bright spots. Many fought hard for increased flexibility with instructional materials and were successful in suspending the adoption cycle for five years. There are other provisions of flexibility that ACSA believes are useful tools to assist school leaders in addressing the ongoing funding reductions. Lastly, the certification of a maintenance factor will hopefully restore some of the cuts faced in the past years and put California on the right track.

ACSA also wants to warn that it is possible that we could see further budget adjustments in the future. While education is protected by the federal Maintenance-of-Effort (MOE) requirement, the Legislature has demonstrated a unique skill to reduce the minimum guarantee without suspending Proposition 98 or seemingly violating the State Constitution. The governor has already called for a special session to work on the state tax system and implement the recommendations from his tax commission. It would not be out of the question to see another special session called to work on revisions to the budget again.

If you have questions please do not hesitate to contact me via email at amack@acsa.org, or via telephone at 1-800-608-2272.