



DATE: July 22, 2009

TO: ACSA Leadership, Members and Interested parties

FR: Adonai Mack, Legislative Advocate

RE: **A Budget Deal is Finalized... I think?**

After several failed attempts to pass a budget over the past three weeks, surprise, surprise, the legislative leaders and the governor have reached an agreement to close the \$26 billion deficit. The methods to close the budget deficit may seem familiar in that they include mostly cuts to every segment of state expenditures. These include corrections, health care (Healthy Families, Medi-Cal), social services (CalWorks, In Home Support Services), higher education (UC, CSU and Cal Grants) and of course K-14 education. The budget also includes borrowing from local government (Prop. 1A funds) and transportation (Prop. 42 funds). And my favorite method to close the budget deficit: accounting gimmickry. This includes early collection of taxes, increasing withholdings, and billions in deferrals to state worker pay and public education.

This agreement was announced late Monday night and ACSA was briefed on several components of the education budget on Tuesday morning. A summary of the provisions of the education budget is below. Please note that as of Wednesday morning the actual language for the budget had yet to be completed, and there are many specifics that have yet to be analyzed. Lastly, the general plan is to have the budget voted on by both houses by Thursday or Friday night.

The Monday press conference to announce this agreement included all the legislative leaders, Senate Pro Tem Steinberg, Senate Republican Leader Hollingsworth, Speaker Bass, Assembly Republican Leader Blakeslee and Governor Schwarzenegger. They all joined in kumbaya fashion to announce the agreements. However, by Tuesday afternoon in typical legislative fashion, Assembly member Blakeslee send an email to his caucus alleging that the Democrats were changing the agreement on the cuts to corrections. Assembly member Blakeslee made it clear that any corrections budget bill that releases prisoners will jeopardize the needed Republican votes for the budget.

The budget process is now taking on the legislative version of *Deal or No Deal*. It is unclear how this latest blowup will affect the outcome of a possible budget vote on Thursday or Friday. Hopefully, these issues will be addressed before a vote is taken.

Below is the framework for the budget deal that has been negotiated by legislative leadership and the governor.

Proposition 98

The deal makes approximately \$6 billion in cuts to education (K-14) funding between the 2008-09 fiscal year and the 2009-10 fiscal year. Further, the majority of the reductions and correlated policy changes are similar to those in the governor's May Revision and the Joint Legislative Budget Conference Report. Lastly, the Legislature is using some creative accounting to reduce the Proposition 98 minimum guarantee and make a variety of cuts to public education.

The overall reductions are separated as such:

- \$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 Act Reductions

In an effort to reduce the minimum guarantee in the 2008-09 fiscal year, the budget plan captures \$1.6 billion in "unallocated" categorical program funds. This method will in turn reduce the guarantee in the 2009-10 fiscal year. We do not have a list of which programs will be affected, but it is likely that the majority of the programs are those in which complete flexibility was granted in the February Budget Act (i.e. Tier 3 programs).

This plan recognizes that the recouping of categorical programs may impact districts disproportionately. Therefore, there will be an attempt to equalize these cuts by calculating the loss of categorical funding and adding to school district revenue limits in 2009-10. Instead of a cut to school district revenue limit cut of \$1.6 billion for the 2008-09 fiscal year (which could be illegal), the deal reduced categorical funding. Note that the State Controller delayed the July apportionment to schools from July 15th to July 30th. It appeared this gave the Legislature the ability to cut those funds before they were allocated.

2009-10 Budget Act Reductions

The cuts to 2009-10 include several different components. These include:

- A \$2.6 billion reduction to school district revenue limits. This cut results in approximately \$440 per pupil.
- The use of \$450 million of federal School Improvement Grant funds to backfill the General Fund reduction to the Quality Education and Investment Act (QEIA). QEIA schools districts should note that they will still receive funding for the program.

Maintenance Factor Repayment

There is also language to repay a maintenance factor to the tune of \$11.2 billion. The budget will include statutory language to define the Proposition 98 maintenance factor and the years in which it was owed. However, the language will not clarify a schedule for the payment of the maintenance factor or specify the percentage of the split between K-12 and community colleges. Over the past year, K-12 education has

taken a majority of cuts in the budget which community colleges have been spared. Generally, the split between the two segments is 89 percent for K-12 and 11 percent for community colleges. ACSA contends that the payment of the maintenance factor should be consistent with the percentage of the cuts taken during the years in which the maintenance factor was created.

Other policy issues

The budget plan also includes several flexibility or policy issues to ease the cuts on public education. These include:

- Delaying the instructional materials adoption process for five years with a corresponding suspension of the textbook purchasing requirement.
- Suspending the CAHSEE for special education students
- Allowing school districts to reduce the school year by five days

Are We Done Yet?

While the plan is to finish all the budget bill language by Thursday and have a vote on Thursday evening or Friday, it is unclear if this is still a possibility. ACSA has learned that there are some smaller outstanding issues that need to be addressed and it is unclear if there are the required Republican votes available to pass the entire budget package. Please stay tuned as ACSA will continue to keep you updated regarding the budget negotiations and passage. Please do not hesitate to contact me via email at amack@acsa.org, or via telephone at 1-800-608-2272 should you have any questions.