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Slight changes and clarifications on the budget deal

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As language continues to be drafted in preparation for votes on the Senate and Assembly Floors, one of the more important education proposals has changed overnight.

Yesterday, we wrote about the interplay between a \$1.6 billion sweep of unallocated 2008-09 categorical money and how LEAs would be paid that money back in 2009-10 as a revenue limit add-on. That is now different. Conversations among legislative staff, the governor's office and legislative counsel have led to a recognition that the original May Revision proposal for 2008-09 was to cut revenue limits. Many in the Capitol feel that while cutting revenue limits takes away much needed discretionary dollars, that kind of cut is more fairly spread across LEAs statewide. Since the sweep of categorical money will result in various inequities, the new language attempts to correct that by converting the 2008-09 categorical cut into a revenue limit cut in 2009-10.

Here is how it will work. In 2009-10, all LEA revenue limits will be reduced across the board by \$1.6 billion, which is about \$254 per ADA. The money then will be reallocated to LEAs to backfill dollar-for-dollar the amounts lost in the 2008-09 categorical sweep. This specific revenue limit cut will be one-time and will not increase the revenue limit deficit factor. This one-time revenue limit cut will be in addition to another revenue limit cut in 2009-10 of \$2.6 billion, or about \$440 per ADA, which will increase the revenue limit deficit factor to eventually be repaid.

Here is how our bullets from yesterday's *NewsBreak* look now:

- In 2008-09, the proposal calls for capturing \$1.6 billion in unallocated categorical program funds in order to lower the Proposition 98 guarantee in 2009-10. We do not yet know which programs are going to be impacted by this move, but of the 50-plus pots of money being captured, we are told that it represents mostly Tier 3 program money that was appropriated as part of the February budget but that has not been sent yet to LEAs. We are waiting for a list of the programs and the dollar amounts.
- In 2009-10, all LEA revenue limits will be reduced across the board by \$1.6 billion, which is about \$254 per ADA. The money then will be reallocated to LEAs to backfill dollar-for-dollar the amounts lost in the 2008-09 categorical sweep. This specific revenue limit cut will be one-time and will not increase the revenue limit deficit factor.
- Also in 2009-10, revenue limits across the board will be reduced by \$2.6 billion, which translates to about \$440 per ADA on average. This revenue limit cut will increase the revenue limit deficit factor.
- A fair-share formula is being drafted to apply an equivalent amount of the revenue limit cuts to basic aid districts in the form of reductions to categorical program receipts.
- For LEAs receiving QEIA money in 2009-10, the deal calls for eliminating the \$450 million K-14 payment for a state General Fund savings. Then, school districts that receive that money will have their revenue limits reduced by the amount of QEIA money they were expecting and that money will be shifted to fund QEIA. To make matters more confusing, the revenue limits of those districts will then be backfilled using \$450 million in federal money. The federal money is partly from Title I money that is available for state initiatives, but some \$350 million of that is federal School Improvement Grant money that

was to be allocated to the lowest performing schools later this year. Since the QEIA payment is part of a court settlement, the state still needs to eventually pay out the \$450 million they are not paying in 2009-10, so the deal calls for adding an additional year to the QEIA program which will now be funded through 2014-15. (This did not change from yesterday's report.)

- Statutory language will be included to define the Proposition 98 maintenance factor for 2008-09 as \$11.2 billion, K-14. The language is likely to include a requirement that the Department of Finance certify by a certain date how much of the cuts made to education since 2007-08 were experienced by K-12 versus community colleges. Currently that calculation is unofficially about 92 percent K-12 versus 8 percent community colleges. The numbers determined by the Department of Finance will then be the percentage split to the two segments as maintenance factor payments are made in the future. The language will also likely specify that maintenance factor payments be made to reduce any outstanding revenue limit deficit factors before anything else. NOTE: There is currently a generally accepted calculation of the Proposition 98 split between K-12 and community colleges at about 89 percent K-12, 11 percent community colleges. Since K-12 has taken 92 percent of the cuts, it shows a disproportionate allocation of the cuts to education falling on K-12.
- The earlier proposal to defer \$1.7 billion from 2009-10 to 2010-11 remains in the proposal. (This did not change from yesterday's report.)
- Instructional materials flexibility is being addressed by delaying new state board of education adoptions through 2012-13, which is the same timeline for the full flexibility given to LEAs in the use of Tier 3 categorical program money. Local instructional materials purchasing requirements will also be delayed through 2012-13.
- The requirement for special education students to pass the high school exit exam would be suspended. The original proposal by the budget conference committee was to suspend the requirement for all students; this proposal is for special education only. (This did not change from yesterday's report.)
- Other than instructional materials, no additional categorical program flexibility is being given or taken away. Discussions will continue concerning greater flexibility with K-3 CSR, but with the leverage of the budget deal possibly going away, this issue will be a tough sell. (This did not change from yesterday's report.)
- The cut to home-to-school transportation remains at the conference committee level of 20 percent. Rumors that transportation will be moved into Tier 3 are untrue. Full flexibility on the use of transportation money is not being included in this proposal.
- Reserve requirements will be reduced to one-third of the current requirement in 2009-10 with the caveat that they be built back by 2011-12.

We have heard that there remains a problem in getting Republican support on the provisions relating to the maintenance factor. Also, it looks more and more certain that there is still too much work to be done drafting the bills to allow for a vote tomorrow. A vote might happen tomorrow night, but Friday is looking like the day all of the budget-redo bills will be debated and voted on.

We will keep you posted.

All CASBO NewsBreaks are posted on the CASBO website at www.casbo.org. The legislative status indicated for the bills in this report reflect the location of each of these measures as of the day the report was posted. To get up-to-the-minute status of bills including additional information on bills, bill text, analyses, legislative vote records, and veto messages, log on to the state's Official Legislative Information website at www.leginfo.ca.gov. For other questions regarding topics covered, you may contact Dennis Meyers, CASBO Assistant Executive Director, Advocacy and Policy, at dmeyers@casbo.org.