
The FISCAL REPORT an informational update

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Cash Flow Update

The issue of deferrals is not new to the education community. The impact, however, has never been as significant as we have seen during the 2008-09 fiscal year, and we expect it to continue in subsequent years. Everyone agrees that this is an unsettling year regarding cash flow. This article looks back to where we have been this year regarding cash flow and looks forward to the proposals for both the 2008-09 midyear changes and the 2009-10 Proposed Budget.

June Apportionment Deferral

The deferral of the June Apportionment was the first of deferrals for school agencies enacted in 2003-04. Unfortunately, this was just the beginning and not the end. The deferral shifted the Budget Appropriation for the June 2004 payment from the 2003-04 fiscal year to the 2004-05 fiscal year. This action crossed over fiscal years, but, as for cash flow, it was for a period of less than two weeks. This deferral remains in place today with no indication that it will be reversed.

Cash Flow Impact: There is a minor impact because the deferral was for less than two weeks. Most school agencies did not experience cash flow issues during this time, unless shortage of cash had already been identified.

ABX3 4

ABX3 4, passed as part of an extraordinary session prior to June 30, 2008, implemented another deferral. This measure deferred the Advanced Apportionment from July 2008 until September 2008 and was intended specifically to release the pressure on cash flow for the state of California. At this time, school agencies began looking closer at the significant impact on cash flow as they now went without one-sixth of the apportionment for more than a month.

ABX3 4 allowed an exemption from the shift for those school agencies that receive revenue limit distributions under Education Code Section (E.C.) 14041(a)(7) or (a)(8). School agencies that receive distributions according to these statutes received their Advanced Apportionment in July as normally scheduled.

Cash Flow Impact: There is a minor to moderate impact on cash flow. The local impact was increasing because of the timing and length of the deferral. There was a safety net, however, for school agencies that met the criteria under 14071(a)(7) and (a)(8), mitigating widespread issues at that time.

2008 Budget Act

The 2008-09 fiscal year began with a late Budget, including further deferrals within the fiscal year. The original Budget Act for 2008-09 includes a deferral of \$2.8 billion from February until after April 20, 2009. This includes half (50%) of the February apportionment and the remaining amount necessary from class-size reduction (CSR) to make up the total \$2.8 billion. The Budget did not include the same provisions afforded

under ABX3 4 regarding E.C. 14071(a)(7) and (a)(8), which exempted school agencies from the deferral if they were funded under these sections. However, school agencies were authorized to request an exemption from the deferral from the Department of Finance (DOF). The timeline on this request was short and ended on November 1, 2008.

Cash Flow Impact: There is a moderate/high impact on cash flow. Local cash flow challenges were turned up a notch.

2008-09 Midyear Proposal

Soon after the 2008-09 Budget was enacted, the Administration acknowledged that the Budget was out of balance by tens of billions of dollars. As a result, the Governor proposed to amend the 2008-09 February to April deferral. The Governor's Budget now proposes to defer \$2 billion from K-12 revenue limit funding and \$570 million from CSR, reduced from the February Apportionment deferred until July 2009. It is yet to be seen what, if any, exemption opportunities will be available for school agencies. This proposal is to be ongoing into subsequent years. This would require legislative action to stop the rolling impact from year to year.

Cash Flow Impact: There is a moderate/high impact on cash flow if this proposal is implemented. Continued pressure on the current-year cash flow after the fiscal year has begun may become a devastating situation for many school agencies.

2009-10 Budget Proposal

The Administration proposes to continue the deferral for 2009-10. The June deferral and midyear (February) deferral continue, with one more added deferral at the beginning of the 2009-10 fiscal year. The Governor's Budget proposes to defer \$1 billion of the Advanced Apportionment in July and \$1.5 billion in August with the payment to be made in September.

Cash Flow Impact: There will be a moderate/high impact on cash flow if this proposal is adopted. Continued pressure on the current-year cash flow after the fiscal year has begun may become a devastating situation for many school agencies.

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