

June 2, 2008

TO: ACSA leadership and members
Interested Parties

FROM: Brett McFadden, Mgt. Services Executive
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RE: Budget update - An alternative proposal and next steps

With the release of the 2008-09 May Budget Revision, many of you have contacted us and asked "what's next?" The release of the governor's annual May Revision signals the start of the "real" budget making phase. Money almost always drives policy development. With updated revenue projections, state policy makers will begin the process of crafting the final state budget. This is a critical stage in the development of the K-adult budget, one that is highly susceptible to political gaming and posturing.

Democrats propose alternative K-adult plan

The governor's proposed 2008-09 May Revision was the first shot in this process. The Democrat's response came last Friday. The Assembly Budget Subcommittee on Education Finance took their final actions and sent their K-adult package to the full Assembly Budget Committee. This is a normal part of the process. All subcommittees will close down this week and send their packages to their full budget committees for approval, and then on to their respective house floors for approval. Once both houses vote on their versions of the budget, a conference committee is established to work out the differences. The conference committee and meetings of the "Big Five" is where most of the major policy and budget actions will take place.

The action taken on the K-adult package last Friday signals a strategy Assembly Democrats will take during budget deliberations. Instead of the governor's approach that cuts programs down to projected revenue levels with no new taxes, Democrats will propose an alternative budget that represents what K-adult programs absolutely need to maintain their integrity and viability. As such, the Assembly subcommittee voted to increase K-14 funding (Proposition 98) an additional \$2.3 billion above the governor's May Revision. The chair, Julia Brownley (D-Santa Monica) announced that the additional funding would come from a projected \$6 billion in new taxes and/or revenues above the May Revision. No details were provided as to these additional taxes and/or revenues. Those will likely be proposed as part of a separate Democratic revenue enhancement package.

Details on the K-adult alternative plan include:

- Providing a 1.6% (partial) COLA to school district and COE revenue limits. The Assembly budget alternative would create a 3.626% deficit factor.
- Rejects the governor's across-the-board reduction to K-adult categorical programs and instead provides a 1.6% partial COLA to all K-adult programs.
- Fully funds Deferred Maintenance and rejects the governor's \$222.5 million one-year funding deferral for the program.
- Provides \$515 million in one-time Proposition 98 funding to the following:
 1. \$100 for Williams Emergency Facility Repair
 2. \$75 million for Community College Property Tax backfill
 3. \$340 million for K-adult mandates (Not sure if this is for 08-09 claims or for prior unfunded claims).

- Provides \$355 million in ongoing Proposition 98 funds for child development instead of using one-time funds as proposed in the May Revision.
- Rejected all K-adult flexibility proposals included in the January and May Revision budget proposals. NOTE - this was a political action, not a final action. We continue to believe some element of funding flexibility will be part of the final 2008-09 budget. The Assembly wanted to move the discussion away from budget flexibility and back to funding education at an amount that it needs.

Now what?

The State Senate Subcommittee on Education Finance ("Sub 1") will take up its K-adult budget package this week. The Senate will likely take a similar approach but with enough differences that the major issues will be budget conference committee items. The conference committee will be established once both houses take up their respective budgets. The process is prone to starts and stops, but the overall pace will quicken as budget deadlines begin to loom.

State's cash flow problem

Adding additional pressure to an already difficult budget year is the state's projected cash flow crunch. The State Controller and State Treasurer's offices report that the state will likely develop serious cash flow difficulties in the first part of August. This will jeopardize the state's ability to pay continuous appropriations (including Proposition 98 programs) starting in late August and September. To address this problem, the governor's administration has proposed a plan to shift payment of many K-adult programs from their monthly apportionments that begin in August and September, over to one lump sum payment in April. This essentially would pass the state's cash flow problems on to school districts and county offices and leave LEAs responsible for their own cash flow difficulties. ACSA and the Education Coalition are firmly opposed to this proposal. Programs proposed for this funding shift would include:

- Community Based English Tutoring
- Supplemental School Counseling
- Foster youth Programs
- English language Acquisition
- CAHSEE Supplemental Instruction
- 9th Grade CSR
- K-3 CSR
- Pupil Retention Block Grant
- Teacher Credentialing BG
- Professional Development BG
- Targeted Instructional Improvement BG
- School and Library Improvement BG
- After School Programs

Our other concern is that the cash flow crunch could create pressure to settle the budget debate in a manner that would place expediency above that of good public policy. K-adult programs could end up with a final package that is not in the best interests of students and instructional delivery. The difficulty with this issue is that it is very dynamic and has a high number of moving parts. We will update you as this issue progresses.

Management perspectives

At this time, we recommend the following:

- June budget development - We continue to recommend that LEA June budgets be developed off of the governor's May Revision proposal. Some LEAs are continuing to plan for the governor's January proposal. Individual methodologies will be unique to each LEA. However, we believe the Legislature will use the May Revision as their bottom line and will work up from that point. The Assembly's recent action is an alternative proposal, one that is better for K-adult programs, but it does not represent final policy.

LEAs should continue to plan for difficult financial weather in 2008-09, the degree of which will be determined by the final budget deal this summer. The situation is likely a two-year problem with 2009-10 looking to be a difficult year as well.

- Cash flow planning - We do not believe the administration's cash flow management proposal will pass legislative scrutiny. However, the state's cash flow deficiency is very real and some sort of cash flow plan will be developed. We continue to recommend that LEAs analyze the impacts this plan could have on their cash flow situations and begin developing initial contingency plans.
- Final budgets - Unfortunately, we won't know the final 2008-09 K-adult budget package and any flexibility proposals included within until the final stages of the state's budget process. The state's cash flow situation aside, the dynamics of the budget situation are extremely challenging and prone to unforeseen political and economic influences that make predicting the "where and when" virtually impossible.
- Legislative advocacy - Local advocacy has been critical in moving public opinion, the governor, and legislators to where we are today in our discussions on school funding. It is imperative that education leaders continue to take the lead in implementing and coordinating legislative advocacy during this crucial time. Information and assistance is available at <http://www.protectourstudents.org>.

Additional updates to follow. In the meantime, please contact ACSA Governmental Relations at 916.444.3216 for additional information and/or assistance.