



CALIFORNIA
DEPARTMENT OF
EDUCATION

1430 N STREET
SACRAMENTO, CA
95814-5901

JACK O'CONNELL

State Superintendent of
Public Instruction

PHONE: 916-319-0800

February 20, 2008

Dear County and District Superintendents, Charter School Administrators, and County and District Chief Business Officers:

BUDGET CHANGES RESULTING FROM THE SPECIAL SESSION

On February 16, 2008, the Governor signed a package of bills dealing with the state's fiscal crisis. The measures take effect immediately. Among other actions, the measures reduce current-year Proposition 98 funding for kindergarten through grade twelve (K-12) education and community colleges by \$507 million and defer most of the 2008-09 July apportionment payment to September.

I am deeply disappointed that there are current-year reductions to Proposition 98 funding. My staff worked diligently to identify funds that were unspent from prior years or will be unspent in the current year, and which we would have expected to revert. As a result of our efforts, we mitigated the cuts somewhat, but more importantly, we pushed back the proposed reduction to revenue limits, the major discretionary funding source you have. This is not to minimize the fact that a cut is a cut: the Legislature and Governor reduced funding for schools.

I recognize that the deferral of most of the July payment will cause hardship on districts. My School Fiscal Services Division will immediately begin to work with County Superintendents on implementation and communication around this provision.

In the coming weeks and months, be assured that I will continue to vigorously oppose education cuts and I will fight any suspension of Proposition 98 in the 2008-09 budget year.

The remainder of this letter provides technical information regarding the effects of the recently enacted legislation on K-12 education.

Background

The state faces a significant budget challenge. In constructing the proposed 2008-09 budget, released in January, the Department of Finance (DOF) projected a deficit of \$14.5 billion. On January 10, 2008, Governor Schwarzenegger declared a "fiscal emergency." Under Proposition 58 (Article IV, Section 10[f] of the California

Constitution) the Legislature is required to hold a special session and must act within 45 days to address the emergency.

In response, the Legislature passed a package of bills to address the emergency. Assembly Bill 4 of the 2008 Third Extraordinary Session (ABX3 4) contains provisions affecting K–12 education.

Overview of Special Session Education Provisions

ABX3 4 has several major sets of provisions. The measure:

- Defers most of the July payment for 2008-09 for Principal Apportionment programs, to September 2008.
- Makes additional funds available for the Emergency Repair Program required by the *Williams* lawsuit settlement.
- Revises the availability of funds under the After School Education and Safety Program.
- Reduces Proposition 98 spending in the current year by \$507 million by reverting funds that will not be spent.

Another special session bill, ABX3 7, appropriates \$409 million from the Public Transportation Account to reimburse the General Fund for home-to-school transportation expenditures. This action does not affect either K–12 education or Proposition 98 funding.

Revenue Limit Deferral

The Principal Apportionment system provides payments to local educational agencies (LEAs) each month during the fiscal year. The normal payment for July for most LEAs is 6 percent of the total amount estimated to be owed for the whole year. ABX3 4 reduces the amount of the July payment to 0.9 percent of the amount owed, and increases the September payment by the amount deferred. This change affects the 2008-09 fiscal year only. Some LEAs are exempt from the deferral, specifically those receiving payments pursuant to *Education Code* Section 14041 (a)(7) and (a)(8). These LEAs are small and receive a large proportion of their funding through property taxes. ABX3 4 authorizes limited exemptions from the deferral for LEAs where the county superintendent of school certifies to the State Superintendent of Public Instruction and the Director of Finance by May 15, 2008, that the deferral would result in the LEA

qualifying for an emergency apportionment pursuant to *Education Code* Section 41320 *et. seq.*

The purpose of this deferral is to improve the state's cash position during July and August.

Emergency Repair Account

ABX3 4 appropriates an additional \$100 million from the Proposition 98 Reversion Account to the Emergency Repair Program (ERP), which is required by the *Williams* settlement.

The 2007 Budget Act diverted \$250 million from the ERP to the Proposition 98 Reversion Account, and used these funds to support home-to-school transportation, with the provision that the funds would be transferred back if the ERP ran short. It appears that the ERP will, indeed, run short. ABX3 4 provides an additional \$100 million for the ERP and repeals the sections requiring the transfer back.

After School Education and Safety Program

ABX3 4 amends *Education Code* Section 8483.51 to clarify that Proposition 49 funds are subject to the same spending timeline as Budget Act funds, that is, they must be spent or encumbered by the end of the first fiscal year of availability. Previously, law was unclear regarding the disposition of funds that are appropriated for the After School Education and Safety Program (Proposition 49) but are unspent after the close of the fiscal year that the funds became available.

Reduction to Current-year Spending Under Proposition 98

ABX3 4 reduces Proposition 98 spending in the current year by \$507 million. This is not an across-the-board reduction but instead consists of reversions of funds that will not be spent.

First, the measure reduces the current-year appropriation for the Targeted Instructional Improvement Grant (TIIG) Program by \$295 million, and reappropriates a long list of fund balances from prior fiscal years to backfill the TIIG reductions. The list consists of funds that will not be spent for a variety of reasons. In a couple of cases, the funds are for programs where a request for applications has not yet been released, such as school gardens. The reductions to the prior-year funds will have no effect on funds available to LEAs to operate programs.

Second, the measure reduces other current-year appropriations. These reductions fall into several categories:

- The funds will not be spent under the current funding formula. These reductions include Economic Impact Aid (\$25 million) and home-to-school transportation (\$11 million).
- It is unlikely that the funds will be spent. These reductions include K–3 Class Size Reduction (\$32 million) and Grade Nine Class Size Reduction (\$5 million). There is a small probability for these programs that—if the estimates are incorrect—a deficit factor would need to be applied to program funding levels. It is not the Legislature’s intent that these programs be less-than-fully funded.
- Funding for 2007-08 can be skipped because the next funding cycle will come very soon. There are two reductions in this category. First, 2006-07 funds for the Physical Education Teacher Incentive were not awarded until January 2008, and thus can be used to pay for 2007-08 program costs. Costs for 2008-09 will be funded from 2008-09 funds. Second, under the current schedule, the current-year funds for the School Safety Competitive Grant would be awarded in May 2008. Instead, grants will be deferred until July 2008, and will be funded from 2008-09 funds.

2008-09 Budget Outlook

As I am sure you are aware, the outlook for 2008-09 is grim. I encourage you to monitor the situation in Sacramento closely as the budget process progresses, and take action to help us push back on any further reductions. A summary of the Governor’s January 10 proposals for 2008-09 will be posted shortly on the CDE Web site.

Thank you for your continued hard work. If you have questions regarding this subject, please contact the Fiscal Policy Office, Government Affairs Division, at 916-319-0821.

Sincerely,

JACK O’CONNELL

JO:cb