

It seems that the Governor and legislative leaders have reached a tentative deal on a revised budget that is scheduled to go before the full legislature for a vote on Thursday. While language on the deal is not yet in print, we've learned through a series of briefings and leaked memos that the education portion of the tentative agreement bears strong similarities to the Governor's series of May Revise proposals in terms of the dollar amount of proposed reductions. In total, the deal would impose about \$15 billion in cuts and implement no new taxes, but it would rely on borrowing from local government and revenue accelerations to increase revenues in the state's General Fund.

\$6 Billion in Education Reductions

The tentative deal includes roughly \$6 billion in reductions to K-12 education. This is how that number is broken down:

- Roughly \$1.6 billion in reductions in the 2008-09 fiscal year would be accomplished through recapturing categorical funds that have not yet been allocated. We don't yet know which categorical programs will be impacted by this reduction, but we've heard the cuts will be largely directed toward Tier 3 programs. This retroactive reduction in 2008-09 would adjust the 2009-10 Proposition 98 guarantee downward so that additional reductions in 2009-10 could be accomplished without suspending the Proposition 98 guarantee.
- In recognition that a recapture of categorical funds would apply reductions unevenly across local education agencies (LEAs), 2008-09 categorical reductions would be restored in 2009-10 as a revenue limit add-on and "redistributed" by applying a roughly \$250 cut per unit of average daily attendance (ADA) to revenue limits across the board.
- Total reductions slated for 2009-10 total \$2.6 billion. Under the tentative agreement, this would be accomplished through a reduction to revenue limits of roughly \$440 per ADA. (The \$440 reduction per ADA includes the \$250 meant to redistribute 2008-09 categorical reductions.)
- The deal would also include the Governor's May Revise proposal to defer \$1.7 billion from 2009-10 to 2010-11.
- Finally, the deal would replace roughly \$450 million in QEIA settle-up funds in 2009-10 with a combination of one-time and ongoing federal funds appropriated for Title 1 and School Improvement Grants. A portion of the federal funds proposed be used for this swap are Title 1 federal stimulus dollars that may not be used to supplant existing programs. Although the swap would be accomplished through a series of complicated funding shifts that would technically meet federal supplement-not-supplant provisions, many in the education community are already voicing concern that this funding shift could jeopardize federal stimulus funding. At the very least, it represents an additional cut of \$450 million in federal stimulus funding that would otherwise have gone out pursuant to existing Title 1 funding formulas and will now be dumped into QEIA. To ensure the state's full compliance with the QEIA settlement agreement, the QEIA program would be extended for an additional year following the proposed 2009-10 funding swap.

\$11.2 Billion Maintenance Factor

The deal would also certify \$11.2 billion in maintenance factor funding generated in the 2006-07, 2007-08, and 2008-09 fiscal years, to be paid under the existing maintenance factor mechanism. In other words, when state revenues increase, Proposition 98 would receive a share of additional revenues until the target for the minimum funding guarantee is restored by \$11.2 billion.

Additional Provisions

Additional flexibility for instructional materials would be established by suspending purchasing requirements through 2012-13 and delaying State Board of Education (SBE) instructional materials adoptions for the same time-period.

Special education students would be exempted from passing the California High School Exit Exam (CAHSEE) as a condition for graduation. The legislative conference committee had originally proposed to suspend the CAHSEE requirement for all students.

No additional flexibility will be provided for class size reduction programs (CSR), although the issue may be considered in separate legislation.

We understand the tentative deal will also include the option to reduce the school year by five days, however, it's unlikely many LEA's would be able to renegotiate local labor contracts to take advantage of this option.

Although no details are available, we understand that budget trailer language includes a provision to extend the sunset on the School Districts of Choice program.

Finally, the deal would reduce funding for home-to-school transportation by 20%--which is the same reduction originally proposed by the legislative Budget Conference Committee.

What Happens Next?

It's unclear whether Republican legislative leaders, who helped to negotiate this deal, can muster up the votes they need from their caucuses to generate a 2/3 vote for this tentative deal.

Claiming that Republican votes might not be there to get a deal passed, Democratic leaders have asked education advocates to work the halls of Capitol to round up support for the deal. Many have interpreted this request for support more as ploy to gain political coverage for a deal that ultimately cuts education than a real concern that the necessary votes are still outstanding.

Nevertheless, we have no guarantees until we see this package go up for a vote. We expect to have an answer by late Thursday night or in the wee hours of Friday morning.

I'll be sure to keep you posted,

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