

July 7, 2008

TO: ACSA leadership and members  
Interested parties

FROM: Brett McFadden, Mgt. Services Executive  
Adonai Mack, Legislative Advocate

RE: **Management advisory:  
Implications of a late budget**

Once again, we began the new fiscal year without a 2008-09 State Budget in place. Deliberations among state leaders continue, but we are likely in for a protracted budget stalemate. How long it lasts is anyone's guess. When this occurs, we typically receive inquiries from ACSA members as to what implications this could have on education programs. So we dusted off last year's advisory and put some current perspective on things.

### **The apportionment process**

To understand the possible impact a late budget can have on schools, one must have a basic understanding of how education funding is doled out to school districts and county offices. Proposition 98 funding rolls out to LEAs per an apportionment schedule. In essence, apportionments are like monthly paychecks from state to LEAs. The State Controller's office oversees these payments per statutory authorization by the Legislature and administrative oversight by CDE. LEAs will typically receive an apportionment from the state on a monthly basis (revenue limit funding). However, the schedule and monthly amounts will vary depending on what type of program (revenue limit vs. categorical), or the statutory requirements of the K-adult apportionment schedule. Some apportionments will have specific titles - for example The First Principal Apportionment, July Advanced Apportionment, or Special Purpose Apportionment. These titles will typically define the purpose and/or time of a specific apportionment.

### **Implications of a late budget**

A budget stalemate that goes into July or August usually has little direct impact on school districts and county offices. Programs funded via a "continuous appropriation," a constitutional appropriation, or federal law will be funded per their monthly apportionment schedules. Most of Proposition 98 is funded via a continuous appropriation that is immune to the impacts of a short-term budget delay. However, a protracted stalemate that goes into late August or September could pose cash flow and/or funding challenges to LEAs.

The State Controller notes that the following will be paid with or without a state budget in place:

1. School district and county office of education revenue limits, and charter school general purpose funding - funded via a continuous appropriation per Proposition 98 (In past years, revenue limit funding represented about 69% of total state Proposition 98 funding)
2. Lottery and Proposition 49 (after school programs) funding - funded via a state constitutional appropriation
3. Federal programs such as child nutrition, CalWORKs stage 2 child care (both federal and state funds)

But there are a number of K-adult education programs that are not covered under these categories and, as such, do not receive funding during budget stalemates. These include: Adult Education, Charter School Categorical funding, non-mandated Community Day School, GATE, ROC/Ps, Special Education, Summer School, and Supplemental Instruction. Although this is an extensive list, virtually all school district and county office budget officials anticipate a delay in the state budget, and properly plan for any immediate impacts a late budget could have on their own budgets. In addition, LEA expenditures typically dip during the summer months, so most agencies have adequate cash flow to cover expenses from these programs.

It is when a state budget delay goes into late August or September that things get worrisome for LEA cash flow and program expenditures. All other categorical programs not listed above are funded via the "Special Purpose Apportionment." This apportionment provides monthly payments from September through June each year. We sometimes refer to these as the 10-month apportionments. This is contrasted with LEA revenue limit funding that rolls out on a monthly apportionment schedule. A budget stalemate that goes into September could possibly delay the release of 10-month program funds on top of those listed above, thereby creating additional cash flow challenges for LEAs just as the academic year gets under way. This has not happened in some time, so it is too early to tell if such a scenario will occur this year. However, we recommend LEAs be prudent in their planning, just in case. Most LEAs have a TRAns (tax revenue anticipation note) mechanism in place to address annual cash flow dips during the fall. We will provide further insight and policy recommendations on this matter if the stalemate goes into late August.

We hope you find this information useful. Should you have questions and/or concerns on this or other education finance matters, please contact our offices at 916-444-3216. In the meantime, education stakeholders should be prepared for another long, hot summer in the State Capitol.