

For Your Information

Lowell Joint School District

Board of Trustees: Janet B. Averill, Darin W. Barber, James A. Najera, Gayle K. Rogers, Fred W. Schambeck
Superintendent: Patricia A. Howell, Ed.D.

Budget Update: Federal Stimulus Funds and the May 19, 2009, Special Election April 22, 2009

The State Budget process has been in a “wait and see” mode since February 20, 2009, when the Governor signed a package of bills designed to revise the 2008/09 State Budget and put into place a 2009/10 State Budget, both of which enacted drastic cuts in education funding. Legislators and the Governor are waiting to determine how to utilize the Federal Stimulus Funds and for the results of the May 19 Special Election.

Federal Stimulus Funds – American Recovery and Reinvestment Act

Federal stimulus dollars have begun flowing to the state as California’s application was the first one submitted and approved by the federal government. School districts should begin receiving the funds sometime in May. There are three primary **one-time funding sources** in the American Recovery and Reinvestment Act (ARRA): Title I, Individuals with Disabilities Education Act (IDEA), and State Fiscal Stabilization Fund (SFSF). Very little information has been sent to school districts regarding the requirements for accepting the funds and **the amount each district will receive is unknown at this time**. The following information is from the California Department of Education.

1. Title I Funds – California has received \$564 million of Title I stimulus funds, approximately 50 percent of the total allocation. The remaining 50 percent will be distributed to states sometime between July 1 and October 1. The second installment is contingent on an evaluation by the U.S. Department of Education of the state's utilization of the first allocation. Title I stimulus funds will be allocated to school districts under current Title I allocation formulas. Title I stimulus dollars must be spent on Title I students in Title I schools under current requirements in federal law.
2. IDEA (Special Education) Funds – California has received \$634 million (approximately 50 percent of the total allocation) for IDEA stimulus funding. The remaining 50 percent will be distributed to states by September. Like the Title I funds, the second phase of IDEA funds is contingent on the evaluation of the state's utilization of the first amount. IDEA stimulus funds will go to Special Education Local Plan Areas (SELPA) based on the current AB 602 formula. The distribution to local school districts will be based upon SELPA plans currently in place.
3. State Fiscal Stabilization Funds (SFSF) – California just received approximately \$5.9 billion in SFSF funds on Friday, April 17. Funds will go out in two phases, with two-thirds going out in Phase One. Guidelines for use of the funds are not yet available, although it appears that the funds can be used for the 2008/09, 2009/10, and/or 2010/11 school years. School districts are required to submit an application for the funds and the District’s application has been filed. No decision has been made by state officials regarding the allocation methodology for this funding.

Special Election – May 19, 2009

Six propositions have qualified for the May 19, 2009, statewide Special Election ballot. All of the propositions will have an impact on the State Budget in some way, but the first three propositions are of particular importance to K-14 education because they directly affect funding. If any of the propositions fail, the State Legislature will need to make revisions to the already approved 2009/10 State Budget. This could result in **additional cuts to education**.

A summary of the propositions and what is at issue, focusing on the education impacts, are on the opposite side of this page. This information is courtesy of School Services of California, Inc., and the Orange County Registrar of Voters Sample Ballot.

Proposition #	Description	Fiscal Impact	Consequence of Failure
1A “Rainy Day” Budget Stabilization Fund	Changes the budget process. Could limit future deficits and spending by increasing the size of the state’s “rainy day” fund and requiring above-average revenues to be deposited into it, for use during economic downturns and other purposes. Caps state spending based on the ten-year trend in state revenues and limits how that money is spent; extends temporary tax increases for one to two years. This is linked to Proposition 1B; if Proposition 1B passes, a portion of the fund would be transferred to fund payments to K-14 education.	Higher state tax revenues of approximately \$16 billion from 2010/11 through 2012/13. Over time, increased amounts of money in state “rainy day” reserve and potentially less ups and downs in state spending.	Loss of approximately \$16 billion from 2010/11 through 2012/13 if tax increases are not extended. State would not divert 1.5% of annual General Fund (GF) revenues beginning in 2011/12 to make supplemental payments for education.
1B Education Funding – Payment Plan	Requires supplemental payments to local school districts and community colleges to address recent budget cuts. Resolves controversy over payment of Proposition 98 "maintenance factor" for fiscal years 2009/10 and 2010/11 by providing \$9.3 billion in supplemental education payments over five to six years, beginning in 2011/12, in lieu of maintenance factor payments. This is contingent upon passage of Proposition 1A.	Potential state savings of up to several billion dollars in 2009/10 and 2010/11. Potential state costs of billions of dollars annually thereafter. Could save the state money by delaying maintenance factor payments.	If voters reject Proposition 1A or 1B, there will be no obligation to make the \$9.3 billion in supplemental payments; but refusal to pay would likely be litigated.
1C Lottery Modernization Act	Allows the state lottery to be modernized to improve its performance with increased payouts, improved marketing, and effective management. Requires the state to maintain ownership of the lottery and authorizes additional accountability measures. Protects funding levels for schools currently provided by lottery revenues. Increased lottery revenues will be used to address current budget deficit and reduce the need for additional tax increases and cuts to state programs.	Allows \$5 billion of borrowing from future Lottery profits; receipt of this funding is assumed in the 2009/10 Budget. There would be annual debt-service payments of \$350 million to \$450 million for 20-30 years from the initial \$5 billion in borrowing. Any remaining Lottery profits would benefit the State’s General Fund, but would probably be insufficient to cover higher General Fund payments for education. The initiative also allows for additional future borrowing against future Lottery profits.	If voters reject 1C, there will be a \$5 billion hole in the 2009/10 Budget, and the Legislature and the Governor will probably have to agree to billions of dollars of additional spending cuts, tax increases, and/or other solutions.
1D Children’s Services Funding	Temporarily provides greater flexibility in funding to preserve health and human services for young children while helping balance the State Budget in a difficult economy. Temporarily redirects portion of Prop. 10 funds to offset General Fund support of health and human services programs for children up to age five; permanently changes state and local Commission operations. (Prop. 10 funds are currently used to support the salary of a District nurse.)	State General Fund savings of up to \$608 million in 2009/10 from one time redirection of reserves and annual payment and \$268 million annually from 2010/11 through 2013/14. Corresponding reductions in funding for early childhood development programs provided by the California Children and Families Program.	Loss of \$608 million in 2009/10 and \$268 million annually from 2010/11 through 2013/14 that would be used to supplant General Fund expenditures.
1E Mental Health Funding – Temporary Reallocation	Helps balance state budget by amending the Mental Health Services Act (Prop. 63 of 2004) to transfer funds, for two years, to pay for mental health services proved through the Early and Periodic Screening, Diagnosis, and Treatment Program for children and young adults.	State General Fund savings of approximately \$230 million annually for two years (2009/10 and 2010/11). Corresponding reduction in funding available for Mental Health Services Act programs.	Loss of State General Fund savings of approximately \$230 million annually for two fiscal years.
1F Elected Officials’ Salaries	Encourages balanced state budgets by preventing approval of salary increases for elected state officials, including the Governor, when the State General Fund is expected to end the year with a deficit.	Minor state savings related to elected state officials’ salaries in some cases when the state is expected to end the year with a budget deficit.	Loss of minor cost savings in deficit years.