



September 4, 2008

TO: County and school district superintendents and CBOs  
Interested parties

RE: **Budget Advisory: Implications of a late budget on K-adult program apportionments**

The state budget stalemate has now entered record-setting territory. If the stalemate continues, it is possible that many categorical program payments could be delayed. As we enter this uncharted territory, it will be imperative that county offices and school districts closely monitor their cash flow conditions. This joint budget advisory is intended to provide education leaders and stakeholders information and management recommendations on this matter.

## **Background**

Local funding for K-adult programs is paid out through an apportionment process. Each program has its own set of statutory requirements and unique characteristics. In addition, the process is influenced by the administrative processes of the California Department of Education (CDE) and State Controllers Office (SCO).

Local Education Agencies (LEAs) typically receive state and federal education funding on a monthly basis. The amounts will differ significantly depending on the month and when specific state and/or federal funding is released from the state. A majority of state K-adult funding is allocated monthly to LEAs based on a continuous appropriation in the Education Code, through the principal apportionment system. This funding represents general purpose funding including school district and county office revenue limits and charter school general purpose block grants. So even if there is no state budget in place, this funding continues to be apportioned according to statute.

However, another portion of K-adult funding, for categorical programs, is available for allocation to LEAs only when a state budget is in place. Some categorical programs are distributed monthly through the principal apportionment system beginning in July of each year. Payments for other categorical programs are released either monthly or periodically between September and June of each fiscal year. Historically, the September payments are quite large.

## **Implications of a late budget**

Prior late budgets have minimally impacted LEA cash flow conditions and/or program operations. But this year is proving to be much more serious. The 2008-09 state budget has already set a new record for the latest state budget ever enacted. For the first time in history, September categorical program payments to schools are now threatened unless a state budget is enacted by the middle of September. After that time, CDE and the SCO will not have enough lead time to calculate payment amounts and physically process September payments that require a budget appropriation. If delayed, the payments associated with the principal apportionment will not be released until the October apportionment. The other delayed payments will be processed as soon as possible, allowing time for calculation of payment amounts and processing at the SCO.

With the possible delay of categorical apportionments in September, LEAs could begin to face significant cash flow difficulties in the very near future. Many school districts and county offices historically experience negative cash flows in November and December in anticipation of the December property tax receipts. These LEAs anticipate this shortage and address it by conducting internal and/or external borrowing. But such actions often take several months to plan and execute. The delay in the September categorical apportionments could cause some LEAs to experience cash flow shortages as early as October with little lead time to develop contingency plans.

## **Program payments subject to delay**

Without a state budget in place by early September, the following September program payments will be delayed until the end of October apportionment.

### Principal Apportionment Programs

- Adult Education
- Adults in Correctional Facilities
- Apprenticeship Funding
- Charter School Categorical Block Grant
- Community Day School Additional Funding
- GATE
- ROC/Ps
- Special Education
- Special Education ROC/P Handicapped
- Special Education Infants
- Supplemental Instruction 2-6 (Low STAR Score & At-Risk of Retention)
- Supplemental Instruction K-12 (Core Academic Program)
- Supplemental Instruction 7-12 (CAHSEE)
- Supplemental Instruction 2-9 (Retained & Recommended for Retention)

The following apportionments normally paid in September will also be delayed until sometime in October due to the state budget stalemate:

Categorical Programs

- Economic Impact Aid
- Home-to-School Transportation
- Instructional Materials Realignment (IMRFP)
- Professional Development Block Grant
- School and Library Improvement Block Grant
- Targeted Instructional Improvement Block Grant

The total funding for these programs is over \$3.1 billion in state K-adult funding for LEAs that would be delayed due to a late budget. This is roughly 30 percent of the funding schools should have received from the state by the end of September.

**Program payments that will not be delayed**

Apportionment payments for the following programs will continue in the absence of a state budget:

- County Office Revenue Limits
- School District Revenue Limits
- Charter School General Purpose Block Grant
- Basic Aid Choice
- Basic Aid Charter School Adjustment
- Court-ordered / Voluntary Pupil Transfer
- New Charter School Advance Payments (revenue limit portion)
- Proposition 49 After School Funding
- Quality Education Investment Act (QEIA) payments
- Child Care – non-Prop. 98 only
- Any funding deferrals from previous fiscal years
- Apportionments from previous fiscal years

**Management recommendations**

We recommend that LEAs take immediate steps to prepare for possible delay in funding for the above listed September apportionments that will not go out due to the absence of a state budget. Specifically, we recommend:

- Closely monitor cash flow: LEAs should monitor cash flow conditions on a weekly basis and plan for any anticipated shortfalls.
- Develop contingency plans should a cash shortfall occur: Options available to LEAs include internal or external borrowing.

Internal borrowing: Current law (Ed. Code 42603) allows LEAs to temporarily transfer up to 75 percent of monies held in any special fund or account to the general fund to cover obligations. The code specifies as to how and when these funds need to be repaid with interest.

External borrowing: Current law (Ed. Code 42620, 42621, 42622) authorizes LEAs to seek external borrowing to cover temporary cash deficiencies. The most common are tax and revenue anticipation notes (TRANS), borrowing from county offices of education, and borrowing from county treasurers. These options have their benefits and disadvantages. LEAs should carefully consider the option that best fits their financial situation. Each district and county office will be unique.

- Work closely with your county office of education: Keep your COE abreast of your situation and any possible implications this situation may pose on your current and/or out-year financial condition.

Our associations will continue to provide up-to-date information on the 2008-09 budget stalemate and the implications it could have on K-adult programs and operations. For additional information or assistance on this matter, please contact any of the following:

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