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Latest News on the State Budget and Federal Stimulus Package

There has been a significant amount of information swirling around in the last few days about both the State Budget and the federal stimulus bill that is being worked on in Congress. What follows is what is known up to this moment in time.

State Budget

There is still no deal in place, although we are hearing that the parties are very close to an agreement on a State Budget for both the 2008-09 and 2009-10 fiscal years. The Assembly, having planned on a vote tomorrow, has postponed its session to Saturday at 9:00 a.m. There is no word yet from the Senate.

Several things must be kept in mind regarding any pending vote on the Budget. First, the public and the legislators themselves are only now getting a sense of what's in the plan. Unlike all previous State Budgets, this one has been negotiated entirely behind closed doors. There have been no Budget subcommittee hearings, no public testimony, no votes on subcommittee reports, no conference committee meetings, and no floor votes. Instead, this Budget, which includes adjustments to the 2008-09 spending plan as well as the 2009-10 Budget, has been negotiated entirely by the "Big 5." The leadership has been forthcoming in saying that the reason for this secrecy is to minimize the lobbying that would certainly follow with the release of the Budget details.

Over the past few days, the press has been reporting on the broad strokes of the Budget plan and the public reaction is only now beginning. There have been threats coming from both the right and the left to punish legislators who vote against the interests of certain constituencies. Given these threats, legislative leaders have been guarded about predicting the outcome of a vote on the Budget.

Federal Stimulus Plan

Complicating the State Budget negotiations has been the evolution of the federal stimulus bill over the last few days. In sharp contrast to the pace in California, federal lawmakers have been working quickly to fashion a stimulus plan to address the continuing deterioration of the national economy. The \$789 billion price tag of the federal bill is lower than either the House or Senate versions, with federal spending accounting for about two-thirds of the plan and tax cuts representing the remaining third.

The current version of the bill in the House Appropriations Committee includes the following for K-12 education:

- \$53.6 billion for the State Fiscal Stabilization Fund, including:
 - \$39.5 billion to local school districts using existing funding formulas, which can be used for preventing cutbacks, preventing layoffs, school modernization, or other purposes
 - \$5 billion to states as bonus grants for meeting key performance measures in education
 - \$8.8 billion to states for high-priority needs, such as public safety and other critical services, which may include education and for modernization, renovation and repairs of public school facilities, and institutions of higher education facilities
- \$13 billion for Title I programs
- \$12.2 billion for special education programs, increasing the federal share of special education services to its highest level ever
- \$2 billion to expand child care to an additional 300,000 children in low-income families
- \$2.1 billion to expand Head Start and Early Head Start programs to an additional 124,000 children

Funds are to be distributed through existing formulas and programs that have track records and accountability measures already in place, and there are provisions in the bill that provide for expedited distribution and obligation of the funds in order to invest them in the economy as quickly as possible. At this time, the actual language of the bill is still not available.

The federal stimulus plan plays a role in the State Budget. As negotiated by the “Big 5,” the federal funds will trigger reductions in tax increases, expenditure cuts, and borrowing, depending upon the amount of aid California ultimately receives. According to press reports, if federal aid to the state exceeds \$9.2 billion, the state would reduce expenditure cuts by \$1.2 billion and tax increases by \$1.8 billion. In addition, \$5.5 billion in planned borrowing would be cancelled or suspended.

Conclusion

What we know about the latest version of the State Budget being negotiated is the revenue side of the solution, which we reported earlier this week in our *Fiscal Report* article titled “[Budget Deal Coming Together?](#)” We have heard rumors about the magnitude and types of cuts for K-12 education, but, with negotiations still ongoing, we need to be careful releasing unconfirmed information and creating expectations in advance of a Budget deal.

In summary, we would urge caution in concluding that the California Budget negotiations have come to an end. Both the Assembly and the Senate may indeed put the Budget up for a vote in the next couple of days. This could be another “drill” or it could indeed result in a Budget moving to the Governor for signature. Since we have been down this path numerous times since

January 2008 (yes, legislators are essentially continuing to negotiate the current Budget since it was never really a realistic expenditure plan), we'll have to wait and see what is eventually passed by the Legislature and signed into law by the Governor.

[Posted to the Internet 2/12/09]

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and Sheila Vickers*