

Agenda Page 2—Item 6110-601-0001— K-14 Payment Deferrals

June 4, 2009
Page 1

Interyear Deferrals



The state has also relied increasingly on “interyear” deferrals to reduce Proposition 98 spending midyear in response to drops in the minimum guarantee.

- Since 2003-04, the state has deferred roughly \$1.3 billion in payments from June to July.
- The February package deferred an additional \$3.2 billion in Proposition 98 payments from February-March to July.



The Governor’s May Revision proposes an additional \$1.8 billion interyear deferral from April-May to July.



Combining all these deferrals, 12 percent of Proposition 98 funds provided for 2009-10 school operations would not be paid until 2010-11.

Agenda Page 2—Item 6110-601-0001— K-14 Payment Deferrals

(Continued)

June 4, 2009
Page 2

Interyear Deferrals	
(In Millions)	
Deferrals Established Prior to 2008-09	
Shift some K-12 revenue limit and categorical payments from June to July	\$1,103
Shift some California Community Colleges (CCC) apportionment payments from May and June to July	200
Subtotal	(\$1,303)
New Deferrals Enacted in February Budget Package	
Increase size of existing K-12 June-to-July deferral	\$334
Shift K-3 Class Size Reduction payment from February to July	570
Shift some K-12 revenue limit and categorical payments from February to July	2,000
Shift portions of CCC apportionments from January-April to July	340
Subtotal	(\$3,244)
Additional May Revision Deferral Proposals	
Shift additional CCC apportionment payments from April-May to July (to begin in 2008-09)	\$115
Shift additional K-12 payments from April-May to August (to begin in 2009-10)	1,678
Subtotal	(\$1,793)
Total Interyear Deferrals	\$6,340

June 4, 2009
Page 3

Intrayear Deferrals



The state has also relied increasingly on “intrayear” deferrals to alleviate its situation in particular “cash-poor” months.

- The February package deferred \$2.7 billion in K-14 payments from July/August to October.
- The Governor’s May Revision proposes a number of new intrayear deferrals, including a shift of some October/November revenue limit payments to December/January.
- The May Revision also proposes a new K-12 payment schedule, which would make 5 percent of all payments in July, 5 percent in August, and 9 percent each month thereafter.

Agenda Page 2—Item 6110-601-0001— K-14 Payment Deferrals

(Continued)

June 4, 2009
Page 4

Intrayear Deferrals	
(In Millions)	
Deferrals Enacted in February Budget Package	
Shift some K-12 payments from July to October	\$1,000
Shift some California Community Colleges apportionment payments from July to October	200
Shift some K-12 payments from August to October	1,500
Subtotal	\$2,700
Additional May Revision Deferral Proposals	
Shift some school district revenue limit payments from October to December	\$1,000
Shift some school district revenue limit payments from November to January	1,000
Adopt 5-5-9 payment distribution method	— ^a
Subtotal	\$2,000
Total Intrayear Deferrals	\$4,700

^a Accelerates payments to districts in some months, while deferring payments in other months.

June 4, 2009
Page 5

LAO Recommendations

- ☒ Avoid additional interyear deferrals.
 - Bad fiscal practice to authorize a program the state cannot afford.
 - Deferrals increase the likelihood that districts could become insolvent.
- ☒ Achieve some intrayear cash solutions by rationalizing K-12 payments (adopt the Governor's 5-5-9 proposal). This proposal reflects that school districts have lower cash needs in the summer months.
- ☒ Although some additional intrayear deferrals are likely needed to deal with the state's cash flow problems, couple such deferrals with a waiver process to exempt districts if they are at risk of defaulting on their fiscal obligations.