

INTER-OFFICE CORRESPONDENCE
Los Angeles Unified School District

INFORMATIVE

TO: Members, Board of Education Date: March 20, 2009

FROM: Randy Ross, Director of Educational Policy
Rima Zobayan, Program Analyst, Independent Analysis Unit

SUBJECT: **Uncertainty in LAUSD's Federal Stimulus Funding**

COPIES: Ramon Cortines, Jim Morris, Roberta Fesler, Megan Reilly, Yumi Takahashi,
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At the Board's Special Ad Hoc Committee meeting yesterday, Chief Financial Officer Megan Reilly noted that the Legislative Analyst's Office (LAO) estimates an additional \$8 billion shortfall in the state budget. It should be noted that this increase in the state deficit further adds to the uncertainty of how much of the American Recovery and Reinvestment Act (ARRA) federal stimulus funds LAUSD will receive. Board Member Tamar Galatzan sums up the situation well: "There are nightmarish scenarios already being contemplated at the District whereby Sacramento dips into stimulus money to cover further budget shortfalls."¹

A review of the LAO's recent report, *Federal Economic Stimulus Package: Fiscal Effect on California* (March 10, 2009) gives cause for such alarm. The LAO's analysis focuses on the three largest components of the education stimulus:

- Fiscal stabilization
- Title I
- Individuals with Disabilities Education Act (IDEA)

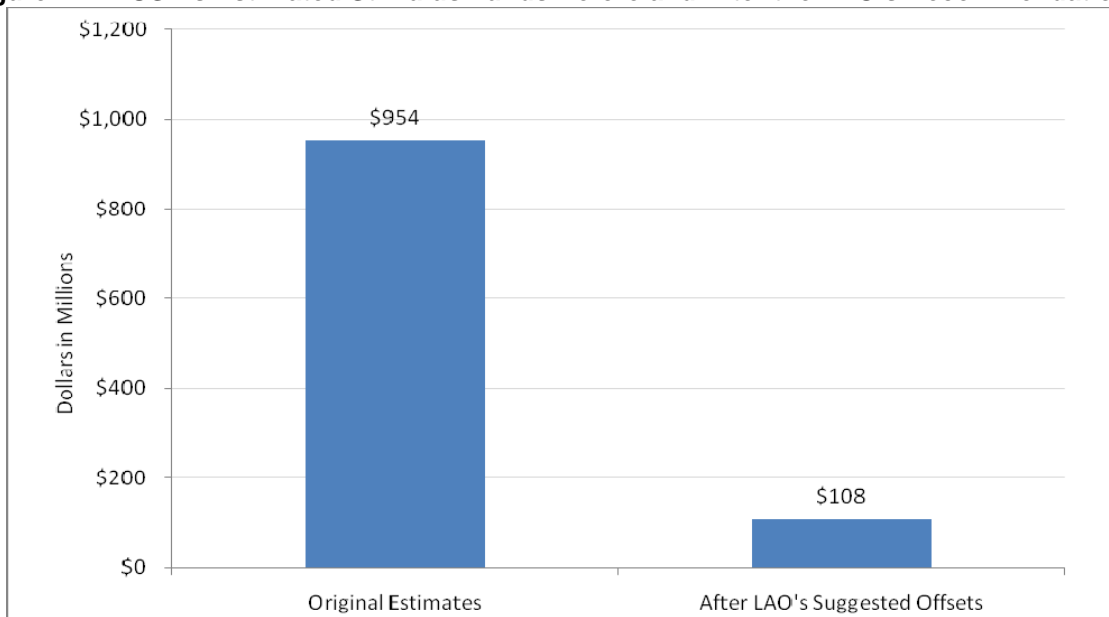
The LAO recommends using all of the fiscal stabilization and Title I funds – the two largest pots of education money in the stimulus package – and much of the IDEA funds for state General Fund offsets. Should the Governor and Legislature follow the LAO's advice, almost all of California's expected \$8 billion from the education stimulus funds would be used to help offset declining state revenues² (see Appendix A).

We estimate that the implementation of the LAO's recommendations would leave LAUSD with about 11 percent of the original estimate of about \$954 million in education stimulus funds (see Figure 1). This remaining \$108 million (all in IDEA funds) would have to be spent on special education.

¹ *Galatzan Gazette*, March 19, 2009

² Legislative Analyst's Office, *Federal Economic Stimulus Package: Fiscal Effect on California*, March 10, 2009: http://www.lao.ca.gov/2009/bud/fed_stimulus/fed_stimulus_031009.pdf

Figure 1: LAUSD's Estimated Stimulus Funds Before and After the LAO's Recommendations³



The use of incoming stimulus funds to offset the state's General Fund is not a new idea. The state's approved budget stipulates the use of about \$8.5 billion of the overall expected \$31.5 billion of ARRA funds to offset General Fund spending. However, none of that \$8.5 billion would come from K-12 education dollars.⁴

Despite the LAO's recommendations, it is unclear whether such use of stimulus funds would be allowed. For example, U.S. Department of Education ARRA guidelines state that "The Department may not waive the Title I, Part A 'supplement, not supplant' requirement. Note, however, that in certain circumstances, including cases of severe budget shortfalls, [a local education agency or LEA] may be able to establish compliance with the 'supplement, not supplant' requirement, even if it uses Title I, Part A funds to pay for allowable costs that were previously paid for with state or local funds."⁵ Whether such an allowance could or would be made for states (in addition to LEAs) is unclear.⁶

The bottom line is that this extraordinarily wide range in revenue possibilities plays havoc with LAUSD's budget development process. Assuming that a high level of uncertainty will continue to cloud the budget process, the District would do well to spell out specific contingency plans for addressing potential unanticipated major shortfalls in revenue.

³ For this informative, we focus on the three main funding sources in the stimulus package – Fiscal Stabilization, Title I, and IDEA Part B. A list of education stimulus funds that California and LAUSD are estimated to receive is available in Appendix B.

⁴ See *Department of Finance Trigger Estimate*, March 16, 2009: http://treasurer.ca.gov/10B_BudgetTrigger/estimate.pdf

⁵ American Recovery and Reinvestment Act of 2009: Title I, Part A Recovery Funds for Grants to Local Education Agencies, March 7, 2009: <http://www.ed.gov/print/policy/gen/leg/recovery/factsheet/title-i.html>

⁶ According to an informative by Santiago Jackson and Peggy Barber (March 20, 2009), Secretary of Education Arne Duncan recognizes that California has special fiscal challenges and will take that into consideration when evaluating California's efforts in using stimulus funds.

**Appendix A:
Recommendations of Legislative Analyst's Office (LAO) Use of
Federal Stimulus Funds to Offset the State's General Fund**

The LAO believes that California should use most of the education stimulus funding to relieve the state General Fund. Specifically, the LAO recommends using all of the Fiscal Stabilization and Title I funds and most of the IDEA funds to offset the state's revenue shortfall (see Table A1).

Table A1: LAO's Recommended Use of State Education Stimulus Funds

Program	LAO's Proposed Use of Stimulus Funds	Dollars (in millions)			
		2009-10	2010-11	2011-12	Total
Fiscal Stabilization	Use to offset state education revenues to avoid making deeper cuts to education programs	\$3,321	\$1,554	\$0	\$4,875
Title I	Use as a "funding swap" with the state's Economic Impact Aid (EIA) and to fund QEIA	\$0	\$1,138	\$374	\$1,511
IDEA (Part B)	Use to cover costs of funding three state special schools and to cover a share of costs for special education children who require residential placement	\$144	\$150	\$157	\$451
Total		\$3,466	\$2,842	\$531	\$6,838

Note: Some numbers may not add up due to rounding.

Source: Legislative Analyst's Office, *Federal Economic Stimulus Package: Fiscal Effect on California*, March 10, 2009

Using these funds to offset declining state revenues would leave only about \$817 million of the original \$7,655 in education stimulus funds for California (Table A2).

Table A2: Remaining California Education Stimulus Funds for Major Programs after LAO Recommendations

Program	Dollars (in millions)		
	Original California Estimate	LAO's Recommendation	Remaining Funds
Fiscal Stabilization	\$4,875	\$4,875	\$0
Title I	\$1,511	\$1,511	\$0
IDEA (Part B)	\$1,268	\$451	\$817
Total	\$7,655	\$6,838	\$817

**Appendix B:
Estimates of Education Stimulus Funds to be Received by California and LAUSD**

California is slated to receive an estimated \$8 billion in education stimulus funds (excluding competitive grants and subsidized construction bonds). Table B1 below provides more detail.

Table B1: Estimated Federal Education Stimulus Funds to be Received by California

Program	Dollars (in millions)
Fiscal Stabilization	\$4,875
Title I	\$1,511
IDEA (Part B)	\$1,268
Child Development Block Grant	\$220
Education Technology	\$71
McKinney Vento Homeless	\$18
Child Nutrition Program	\$13
Total	\$7,977

Source: California Department of Education, *Comparison of Pre K-12 Education Estimates*, March 16, 2009
<http://www.cde.ca.gov/fg/aa/ar/com.asp>

LAUSD would receive an estimated \$963 million of California's education stimulus funds (excluding potential funds from competitive grants and subsidized construction bonds). Table B2 below provides more detail.

Table B2: Estimated Federal Education Stimulus Funds to be Received by LAUSD

Program	Dollars (in millions)	Percentage of California's Funds
Fiscal Stabilization	\$387	8%
Title I	\$398	26%
IDEA (Part B)	\$168	13%
Education Technology	\$10	14%
Child Development Block Grant	TBD	TBD
Education Technology	TBD	TBD
McKinney Vento Homeless	TBD	TBD
Child Nutrition Program	TBD	TBD
Total	\$963	12%

Source: Santiago Jackson and Peggy Barber, *Report on the Annual Legislative and Policy Conference of the Council of the Great City Schools* (Informative), March 20, 2009

Selected References

California Department of Education, *Comparison Pre K-12 Education Estimates*, March 16, 2009.

California Department of Finance, *Department of Finance Trigger Estimate*, March 16, 2009.

Legislative Analyst's Office, *Federal Economic Stimulus Package: Fiscal Effect on California*, March 10, 2009.

Legislative Analyst's Office, *The Fiscal Outlook under the February Budget Package*, March 13, 2009.

Santiago Jackson, *Update on Federal Stimulus Package (Informative)*, Los Angeles Unified School District, February 23, 2009.

Santiago Jackson and Peggy Barber, *Report on the Annual Legislative and Policy Conference of the Council of the Great City Schools (Informative)*, Los Angeles Unified School District, March 20, 2009.

Sjoberg Evanshenk Consulting, Inc., *Federal Stimulus Act's Impact on State General Fund Offsets*, March 16, 2009.

U.S. Department of Education, *American Recovery and Reinvestment Act of 2009: Title I, Part A Recovery Funds for Grants to Local Education Agencies*, March 7, 2009.