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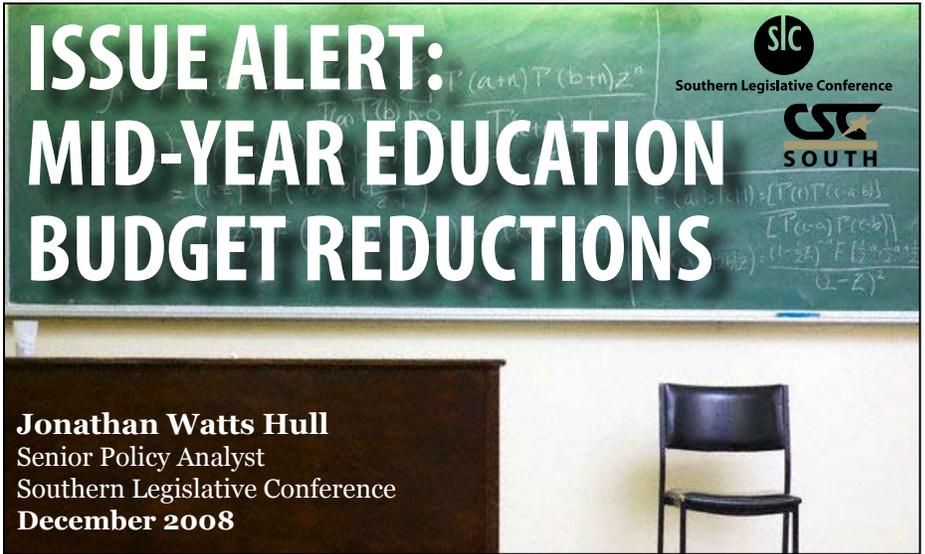
ISSUE ALERT: MID-YEAR EDUCATION BUDGET REDUCTIONS



Southern Legislative Conference



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Declining tax revenues and increasing costs of operations combined with recent turbulence on Wall Street have plunged state finances into turmoil. For schools, which receive much of their revenue from property taxes, the long and precipitous drops in housing prices and turmoil in the mortgage sector have caused further budgetary pressure. In light of these events, many states have reduced already conservative revenue projections and reassessed their approved budgets. In the face of budget shortfalls, states across the region are reviewing their spending plans for the current fiscal year to determine where cuts can be made.

Within state budgets, education is the largest component of state expenditures, followed by Medicaid and corrections. Because state funds for Medicaid are determined by a federal formula, budget savings from Medicaid are hard to realize. Cutting budgets in corrections often has public safety implications. As governors and budget writers look to find savings in state budgets, education is being asked to find cuts, a step that has been uncommon in recent years as states have boosted education spending consistently, even in difficult years. Not every state has cut state support for schools, however, nor are the economic conditions equally dire across the region. The following highlights recent school budget actions as of mid-October 2008.

STATE SUMMARIES

ALABAMA

Alabama used \$440 million of their “rainy day” fund in fiscal year 2008 to avoid proration of the education budget, an action which wiped out the fund. The state has another Constitutional Reserve, which essentially is a line of credit that the state can draw upon, currently funded at \$248 million (an amendment approved on the November 2008 ballot increases the allowable line of credit to 6 1/2 percent of the previous year’s appropriations, less any funds that have been withdrawn and not repaid—for 2009, this would amount to \$437 million). The state superintendent of education told local school officials on November 18 to anticipate the governor calling for proration of the education budget before the New Year, a move that would allow the state to begin to make withdrawals from the rainy day fund.

Alabama, to date, cut nothing from its fiscal year 2009 budget yet, although the state’s Education Trust Fund already has been reduced for the current fiscal year from fiscal year 2008 funding by \$128 million. The state had planned on a withdrawal from the rainy day fund (now depleted) to cov-

er a portion of the fiscal year 2009 Education Trust Fund, which means that if revenues continue to decline, some budget cuts may be necessary. The 2009 budget does contain conditional appropriations that will be made if the revenue is available. The reduction to the Education Trust Fund was less as a percentage (2.8 percent) than the reduction to the higher education budget (10.4 percent). Due to the credit crunch, the state has had to twice delay monthly payments to districts, causing school systems to dip into their reserves to make payroll.

ARKANSAS

Thanks in part to very conservative revenue forecasting, Arkansas currently is accruing a modest revenue balance for fiscal year 2009. The state’s Revenue Stabilization Act requires funding to be adjusted to reflect revenues, preventing deficit spending. A component of the state’s resolution of the Lakeview school funding litigation requires Arkansas to fully fund its obligations for education prior to funding other agencies. As a result, all other agency budgets must be cut in order to hold education funding harmless in the instance of a revenue shortfall.

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SERVING THE SOUTH

Arkansas' education appropriations decreased from \$4.137 billion in fiscal year 2008 to \$3.505 billion in fiscal year 2009, although state aid for students increased from \$133 million for fiscal year 2008 to \$163 million in fiscal year 2009. The decline in total appropriations represents a sharp drop in school facilities funds, from \$665 million in fiscal year 2008 to \$75 million in fiscal year 2009 (still the largest such investment in the region), and reflects the satisfaction of the initial phase of the facilities component of the Lakeview settlement. State funding for higher education, which is not covered by the Lakeview settlement, increased 5 percent from fiscal year 2008 to fiscal year 2009.

FLORIDA

Due to declining revenues, Florida reduced the appropriations for education twice in fiscal year 2008, first in a special session in October 2007, with reductions for public schools amounting to \$138 million and reductions for community colleges and universities amounting to \$125 million, and again at the start of the 2008 regular session, when the Legislature cut an additional \$356 million. The Legislature thus started the budgeting process for fiscal year 2009 with a baseline nearly \$500 million less than the budget initially approved for fiscal year 2008. The fiscal year 2009 budget included a \$332 million reduction in total funding for K-12 education, amounting to a 1.8 percent decrease in per pupil funding from the final fiscal year 2008 budget (the funding cut was somewhat mitigated on a per pupil basis by declining enrollment). As revenues have continued to decline, the state has implemented a 4 percent holdback exercise for all entities, including education. Should this exercise continue throughout the year, the total reduction to per pupil funding will be 3.8 percent. Higher education budgets also are required to reduce spending by 6 percent in the fiscal year 2009 budget.

GEORGIA

In the 2008 legislative session, the General Assembly increased school funding by approximately 2 percent, restoring some of the austerity cuts to school funding that have been in place since 2003 and that have reduced revenues to schools by more than \$1.25 billion, cumulatively. Shortly after the budget was finalized, Governor Perdue declared a fiscal crisis, allowing him to use \$600 million from the state's reserve fund to supplement tax revenues.

As state revenues continued to fall below projections, the governor reduced state aid to schools by 2 percent in October, reducing the state's original \$21.4 billion budget by \$248 million (an original cut of \$246 million was amended as the state's revenue picture worsened). Funding programs at the Department of Education were reduced by 6 percent, cuts that will become the baseline for the fiscal year 2010 budget. The governor is requiring all school districts to reduce their budgets by 5 percent over the next two years. In higher education, the Board of Regents approved a 6 percent (\$136 million) reduction to the budget for Georgia's 35 col-

leges and universities, which will result in freezes in hiring and delays in new academic programs.

The governor's office requested the state board of education to grant all reasonable class size waiver requests during the 2008-2009 and 2009-2010 school years. Governor Perdue also will introduce temporary waivers of the expenditure controls for site-based direct instruction, media center, staff development and additional days of instruction to provide school districts with flexibility to meet the state-mandated cuts. The fiscal year 2010 budget, which will be developed soon, will likely include a further 3 percent cut to state aid to schools.

KENTUCKY

Agencies have been informally asked to look into the impact of a 4 percent to 4.5 percent reduction in funds for the current fiscal year. The state's revenue forecasting group may be called in to look at the state's revenue picture early in 2009. However, K-12 education has historically been protected from budget cuts. Between fiscal year 2008 and fiscal year 2009, the education budget saw a 2 percent to 3 percent net increase, while universities saw their budgets decline by about the same percentage.

Overall, the fiscal year 2010 budget increases education \$65 million (out of a total \$4 billion budget). The state budget is on a biennial cycle and uses very conservative budget growth projections (less than 3 percent), which may mitigate the impact of any revenue downturns.

LOUISIANA

Between fiscal year 2008 and fiscal year 2009, support for K-12 schools increased by \$183 million (about 6 percent), primarily due to a \$90 million increase for growth in the equalization formula and increases for at-risk and career-technical education and \$55 million for certificated pay increases. Also, there was a one-time increase of \$48 million for a pay supplement for support workers.

The fiscal year 2009 budget was built with mineral revenues predicated upon a price of oil at \$84 a barrel. For the first half of the year oil was above that rate, so the state expects no revenue cuts. The amount of state funds that can be appropriated can be no more than what is recognized by the revenue estimating conference. All four members of the conference must agree on the revenue projections, and these typically are very conservative. When oil remained above \$70 a barrel, there was little anticipated in mineral collections. Declining oil prices could affect the state revenue picture, however. Mineral revenue is 15 percent of the budget, sales and individual income tax are both 30 percent.

MARYLAND

The \$14 billion state budget is approximately \$590 million short of revenue projections, which has forced Governor O'Malley to present cuts to the state budget, including \$30 million from the education budget, \$15.6 million of which will come from the University of Maryland System (repre-

senting 1.5 percent of the system's total budget). Reductions for K-12 education will result in \$15.4 million in budget savings, including cuts in funding for some professional development, gifted and talented summer programs, state formula aid, school-based health centers, math and science initiatives, and a school breakfast pilot program. The budget gap for the fiscal year 2010 budget is projected to be \$1 billion to \$1.3 billion.

MISSISSIPPI

Mississippi is anticipating a revenue shortfall for the current budget year of \$100 million, roughly 2 percent off the mark. In order to cover the loss, Governor Barbour has asked agencies to calculate the impact of a 2 percent cut for the current fiscal year and a 4 percent reduction for the next fiscal year. Department directors submitted their reports at the end of October. The K-12 education budget was relatively flat between fiscal year 2008 and fiscal year 2009, increasing one-tenth of a percent, from \$2.234 billion in fiscal year 2008 to \$2.235 billion in fiscal year 2009. K-12 appropriations account for 45 percent of total state expenditures in Mississippi.

MISSOURI

Missouri's revenues for the first quarter of fiscal year 2009 were .9 percent above 2008, representing a significant variance from the state's anticipated growth of 3.2 percent in revenues. During the 2008 session, the General Assembly continued with the third phase of a seven-step increase in elementary and secondary education funding, expanding state support for K-12 schools by \$121 million, or 2.4 percent. At this point, there have been no withdrawals of state support for schools and there are no discussions of cuts to state funding for education.

NORTH CAROLINA

The budget for K-12 education increased by about 2 percent between fiscal year 2008 and fiscal year 2009. This was due in part to a 3 percent salary increase for teachers, expansion of the state's Pre-K program, and additional money for school transportation costs.

The state budget office is implementing a 3 percent reduction in state funding across all agencies. For education, most of this is expected to be absorbed by the Department of Public Instruction (DPI). The DPI will pass along to local education agencies a 1 percent reduction, which likely can be done through belt-tightening. No money has been taken back from local agencies yet, and it is expected that they will be able to accomplish the 1 percent cut without significant impact. There is a possibility the state budget office may seek further budget reductions.

OKLAHOMA

Oklahoma has thus far been insulated from the economic turmoil affecting the rest of the country. First quarter revenues for the state were up \$170 million over the amount needed to fund state government, thanks largely to increased natural gas tax receipts.

SOUTH CAROLINA

South Carolina is facing a nearly \$500 million shortfall in the fiscal year 2009 budget. House and Senate budget writers approved plans on October 17 to slice \$488 million from the state's \$7 billion budget, with colleges and universities experiencing large cuts. The Legislature returned October 20 to consider the cuts, passing a final resolution to the governor on October 23. The Department of Education will see an \$88.5 million (3.6 percent) cut in its budget, including \$67 million in aid to school districts and \$6 million in innovation and support programs. Part of the savings at the department will come from a five-day furlough for department employees (but not school staff). Higher education also will share in the cuts, with the University of South Carolina, Clemson University and the Medical University of South Carolina each seeing their budgets cut by 14.9 percent (\$26.9 million, \$16.5 million, and \$14.2 million, respectively). The technical college system will experience a 14.4 percent cut in its budget, roughly \$24.8 million spread across the state's technical colleges.

TENNESSEE

Tennessee does not have an income tax, and is thus very dependent on sales taxes for general revenues. Tennessee projects between a \$300 million and \$600 million shortfall in revenues for the current fiscal year. State colleges and universities have experienced budget cuts already this year, including reductions coming out of the regular session of the General Assembly which reduced higher education's budget for fiscal year 2009. As revenues continued to drop, subsequent budget revisions further reduced state support of education, including a \$17 million cut to the four-campus University of Tennessee system and \$25 million in cuts to the Tennessee Board of Regents, which oversees six universities, 13 community colleges, and technology centers. K-12 has thus far not been affected by cuts, and Governor Bredesen has indicated that he would prefer to not reduce funding at this level. Nonetheless, the governor has asked all agencies, including education, to look at 3 percent cuts in their fiscal year 2010 budgets. K-12 education financing was relatively flat between fiscal year 2008 and fiscal year 2009 at \$3.8 billion.

TEXAS

Texas' revenue picture currently is holding steady, meaning the state's \$36.9 billion K-12 education budget is not at risk of reduction. Oil and gas revenues have provided the spur to state tax collections reduced by drops in income and sales.

VIRGINIA

Virginia is facing a \$2 billion to \$2.9 billion revenue shortfall for the 2008-2010 biennium, with revenues projected to be down 4 percent this fiscal year. To close this gap, Governor Kaine has proposed nearly \$350 million in new spending cuts, reducing state funding for colleges by as much as 7 percent, withdrawing \$400 million from the state's rainy day fund, and using debt rather than cash to finance \$250 million in state construction projects. For the current fis-

cal year, the governor has not cut funds for K-12 education. State support for K-12 schools increased 7 percent from the 2006-2008 biennium, largely due to “rebenchmarking” (adjusting for increases in enrollment, costs, and salaries), with most of the increase (4 percent) occurring in the first fiscal year (fiscal year 2009) of the 2008-2010 biennium.

WEST VIRGINIA

West Virginia is one of the few Southern states that is not projecting a revenue shortfall this year (largely due to strong revenues from coal and gas), so the state has no need to reduce support to K-12 or higher education.

ELEMENTARY AND SECONDARY SCHOOL REVENUE BY SOURCE, 2006

State	Total	Federal Sources		State Sources		Local Sources	
		Amount	Percent	Amount	Percent	Amount	Percent
Alabama	6,362,217	730,112	11%	3,540,436	56%	2,091,669	33%
Arkansas	4,234,383	482,038	11%	3,108,910	73%	643,435	15%
Florida	25,418,734	2,460,004	10%	10,215,772	40%	12,742,958	50%
Georgia	16,157,870	1,455,212	9%	7,136,011	44%	7,566,647	47%
Kentucky	5,999,705	680,251	11%	3,439,085	57%	1,880,369	31%
Louisiana	6,778,539	1,276,913	19%	2,814,302	42%	2,687,324	40%
Maryland	10,689,764	663,284	6%	4,189,334	39%	5,837,146	55%
Mississippi	4,269,711	856,762	20%	2,108,733	49%	1,304,216	31%
Missouri	8,778,294	740,742	8%	3,830,104	44%	4,207,448	48%
North Carolina	11,708,667	1,184,622	10%	6,846,954	58%	3,677,091	31%
Oklahoma	5,119,239	654,807	13%	2,570,987	50%	1,893,445	37%
South Carolina	6,741,029	664,113	10%	3,023,114	45%	3,053,802	45%
Tennessee	7,164,914	793,477	11%	3,097,824	43%	3,273,613	46%
Texas	40,988,805	4,735,208	12%	13,503,141	33%	22,750,456	56%
Virginia	12,952,183	866,982	7%	5,126,114	40%	6,959,087	54%
West Virginia	2,806,752	346,628	12%	1,649,661	59%	810,463	29%
SLC	176,170,806	18,591,155	11%	76,200,482	43%	81,379,169	46%
United States	521,116,397	47,100,781	9%	242,785,457	47%	231,230,159	44%

Source: U.S. Census Bureau, *Public Education Finances 2006*, Washington, D.C., April 2008.

EDUCATION SPENDING AS A PERCENTAGE OF STATE GENERAL FUND BUDGETS, 2006

State	General Funds (\$ millions)		% General Funds for K12 Education
	K12 Education Expenditures	Total Expenditures	
Alabama	\$3,513	\$12,858	27.3%
Arkansas	\$1,701	\$3,783	45.0%
Florida	\$9,467	\$25,922	36.5%
Georgia	\$6,602	\$17,272	38.2%
Kentucky	\$3,544	\$8,332	42.5%
Louisiana	\$3,719	\$7,750	48.0%
Maryland	\$4,129	\$12,356	33.4%
Mississippi	\$1,838	\$4,016	45.8%
Missouri	\$2,566	\$7,126	36.0%
North Carolina	\$6,867	\$17,190	39.9%
Oklahoma	\$2,175	\$5,318	40.9%
South Carolina	\$2,046	\$5,640	36.3%
Tennessee	\$3,136	\$9,421	33.3%
Texas	\$13,041	\$34,112	38.2%
Virginia	\$5,030	\$14,821	33.9%
West Virginia	\$1,684	\$3,559	47.3%
SLC	\$71,058	\$189,476	37.5%
United States	\$224,204	\$651,591	34.4%

Source: National Association of State Budget Officers, *2006 State Expenditure Report*, Washington, D.C., 2007.