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## FISCAL REPORT

PUBLIC EDUCATION'S POINT OF REFERENCE FOR MAKING EDUCATED DECISIONS

### Lessons from the Great Recession



BY SSC TEAM

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History has shown us that the economy is cyclical over time—it ebbs and flows. And, starting with former Governor Jerry Brown, our state policy makers have been warning us that the recovery from the Great Recession has been the longest in recorded history, and that a recession could be just around the corner.

Although never anticipated to happen so precipitously, all indications are that the COVID-19 pandemic is pushing us into a recession—worldwide, nationwide, and statewide. Our state policy makers are now saying that the State Budget for the coming year will be a workload budget—not only due to the lack of opportunity to vet proposals as usual due to suspension of this legislative session, but also because there will be fewer resources available. (For more information on the workload budget, see [“DOF Planning for Workload Budget in 2020–21”](#) in the March 2020 *Fiscal Report*.)

As we move into recession territory once again, there is much to learn from the past. Many of our current local school administrators were also leaders during the Great Recession, but many were not. Either way, we at School Services of California Inc. (SSC) thought it would be helpful to dredge our *Fiscal Report* articles and our workshop materials from the time of the Great Recession to help us all get prepared with what may happen as reduced state revenues are dealt with by Governor Gavin Newsom and our Legislature. What follows are discussions of what the state did to us and what the state did for us during the Great Recession.

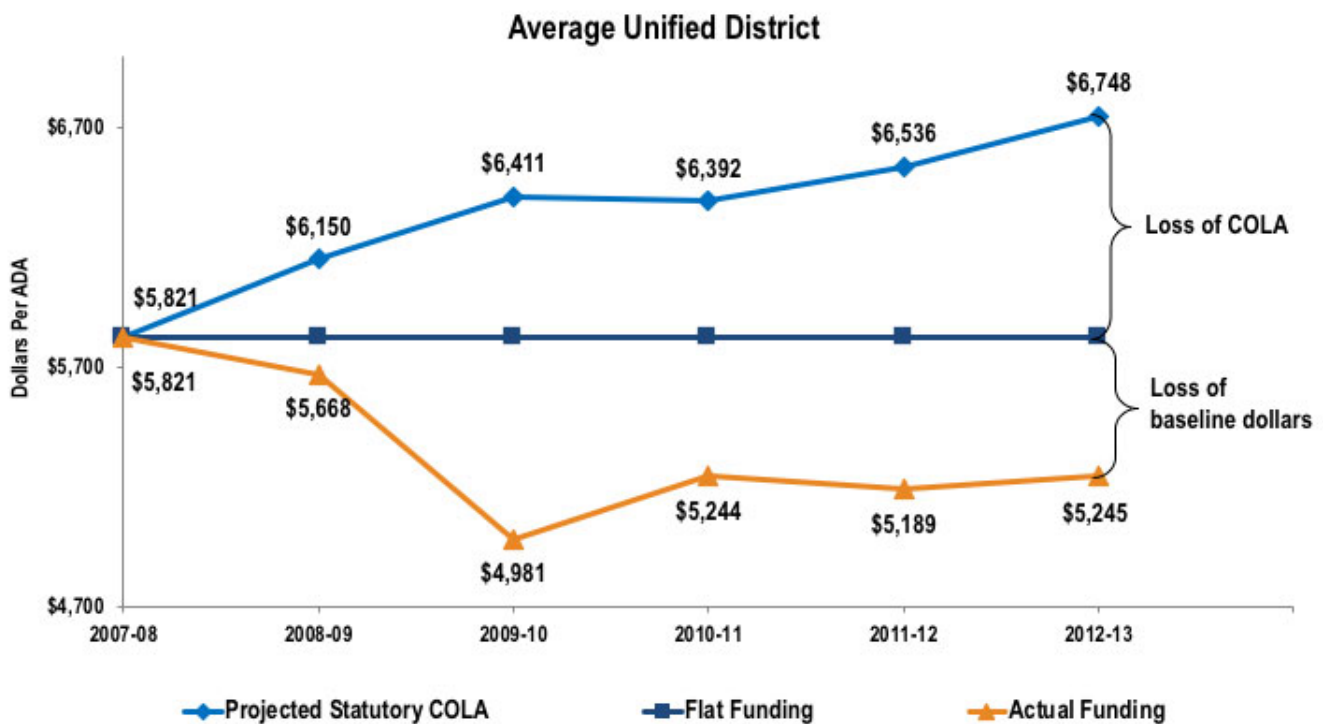
#### What the State Did to Us

At the time of the Great Recession the main source of discretionary funds for local educational agencies (LEAs) was the revenue limit, the predecessor to the Local Control Funding Formula (LCFF). There were also dozens of state categorical programs that LEAs relied upon for many years as sources for instructional materials, programs for underserved students, professional development, school counselors, beginning teacher support, and other important initiatives.

As our state policy makers grappled with the reduced state revenues during the Great Recession, here are some of the solutions they implemented in the budgets for education during those years:

1. Not funding, or only partially funding, the statutory cost-of-living adjustment (COLA) on revenue limits and categorical programs
2. Changing the principal apportionment schedule to slow down cash to LEAs—this was a permanent change and still applies
3. In addition to changing the apportionment schedule the state also deferred (delayed) cash apportionments to LEAs, some within the same year and some to the next year
4. Cutting revenue limit funding—most of the time at the beginning of the year, but also in the middle of the year
5. Cutting categorical funding by almost 20% over two years
6. Deferring reimbursements for state-mandated programs—which still continues to this day, to a lesser degree

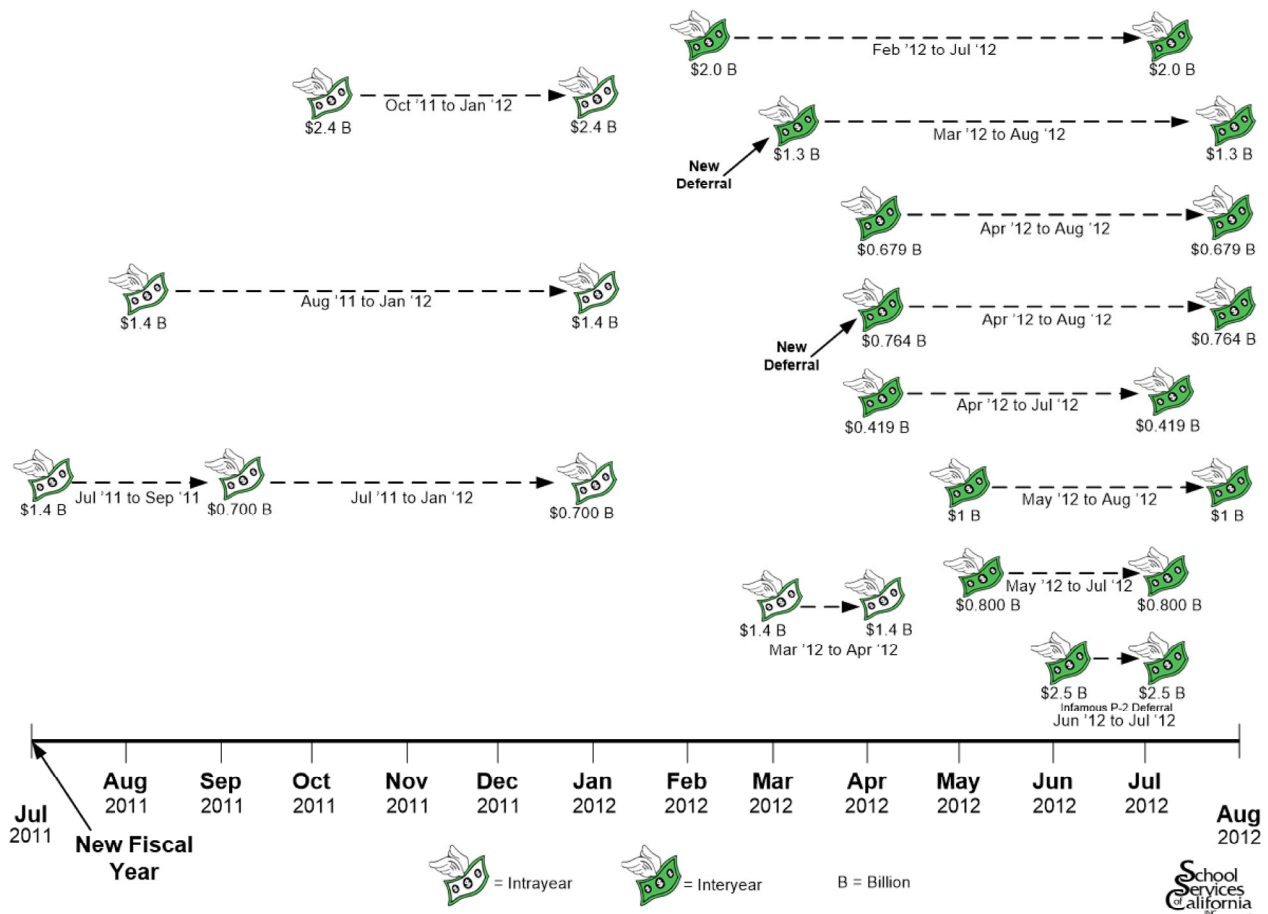
The unfunded or partially funded statutory COLAs, as well as the cuts that were made to revenue limit funding, were all tracked by the revenue limit deficit factor, which grew as high as 22.272% by the end of the Great Recession. As a result, we at SSC created what we called the “alligator chart” to track the per-average daily attendance (ADA) amount of revenue limit funding—the amount actually funded versus the amount that should have been funded—in each year. Here is the final alligator chart from 2012–13, the final year of revenue limit funding:



As we emerged from the Great Recession, the revenue limit deficit factor of 22.272% was restored through the implementation of the LCFF. Also, most of the reduced categorical programs were rolled into the LCFF going forward. By the time full funding of the LCFF targets was reached in 2018–19, LEAs were finally restored to the purchasing power of 2007–08. From this perspective, education already starts out behind the curve as we face the coming recession.

We at SSC also created a visual depiction of the cash deferrals that the state imposed during the Great Recession, which caused LEAs to bear the brunt of the borrowing costs to make ends meet. This is the illustration of cash deferrals at the peak of \$9.5 billion in 2011–12:

### 2011–12 Apportionment Deferrals



In essence, the state pushed its cash flow issues to all of the LEAs, who were required to borrow significant amounts of money—and to pay those borrowing costs—just to have cash to pay employees and to fund other operating costs. An unintended consequence of the cash deferrals was that the impact was much greater on those LEAs with higher needs populations, as the proportion of their LCFF funding that comes from state aid is higher (as opposed to the portion that comes from local property tax collections). Coming out of the Great Recession, the cash deferrals were eliminated over a number of years, with the last deferral having been eliminated in the 2014–15 fiscal year.

## What the State Did *for* Us

Along with the funding cuts and deferrals of the Great Recession, the governor and the legislature at the time were able to agree on temporary changes in statutes to provide operational and financial flexibility for LEAs in dealing with the cuts and deferrals imposed upon them. What follows is a list of the most significant flexibility options provided:

1. Ability to transfer funds between most state categorical programs, along with great flexibility on the use of those funds (referred to as “Tier III flexibility”—these programs were later rolled into the LCFF)
2. Ability to sweep ending balances from some categorical programs and restricted funds to the unrestricted General Fund
3. Ability for LEAs to apply for an exemption from some cash deferrals
4. Delayed compliance with instructional materials adoptions (but the sufficiency requirements of Education Code Section [EC §] 60119 remained)
5. Relaxation of the penalty provisions of the K–3 Class Size Reduction program (this program no longer exists, but was replaced through the LCFF with the TK–3 grade span adjustment requirements)
6. Waiver of penalties for exceeding class sizes in grades K–8 (related to EC § 41376–41378)
7. Elimination of the required district match for the Deferred Maintenance program (this program was later rolled into the LCFF)
8. Reduced or eliminated (depending on the year) the required contribution to Routine Restricted Maintenance
9. Ability to reduce the instructional year by up to five days (from 180 days to 175 days), with a commensurate reduction in the instructional minute requirements, all with no penalties assessed
10. Reducing the local minimum reserve requirement—something we at SSC would never recommend (in other words, don’t eat the seed corn!)
11. Allow revenue from the sale of surplus property to be deposited into the General Fund (rather than being restricted for facilities only)

Even with the temporary flexibility above, LEAs found it necessary to implement massive layoffs of both certificated and classified staff, as well as reduce employer contributions to health benefits, freeze step and column movement, cut hours, and implement unpaid furlough days for remaining staff. These draconian actions were required because the cuts and deferrals were so significant, and because most of an LEA budget is made up of people.

## Moving Forward

For LEAs that haven’t already, it’s time to batten down the hatches as we head into the storm in front of us. We do not know how serious it will be, nor do we know how long it will last. But we all need to draw on the experience of those that were around during the Great Recession and implement the policies of the past that worked to keep us solvent. There will also be strategies that weren’t used

then but could be helpful now. As your partners in this, we at SSC will continue to keep you informed and provide our best advice.