From: John Ferguson [mailto:john.ferguson@scott.k12.va.us]
Sent: Thursday, October 04, 2012 9:27 AM
To: 'Loretta Page'
Subject: FW: Sequestration & School Bonds

There is a resolution that could be included in the board's packet.

From: Gina Patterson [mailto:gina@vsba.org]
Sent: Wednesday, October 03, 2012 7:34 AM
To: Gina Patterson
Subject: Sequestration & School Bonds

The federal sequester, which is slated to become effective January 2, 2013, could impact certain school bond programs. Unless Congress intervenes to rescind sequestration, these across-the-board budget cuts could affect school operating budgets with cuts of 8.2 percent or more to federal grant programs, as well as cuts to capital improvement budgets because of a reduction in federal subsidy payments that school districts (bond issuers) receive under certain direct-pay, tax credit bond programs - namely Qualified School Construction Bonds (QSCBs), Build America Bonds (BABs) and Qualified Zone Academy Bonds (QZABs).

NSBA has contacted the U.S. Department of Education and the U.S. Treasury Department to address this concern.

Under the economic stimulus, these bond programs were designed to help provide a significant cost savings to school districts for capital improvement. School districts had the option of issuing QSCBs as Build America Bonds, and receiving a direct federal payment from the U.S. Treasury Department that would be equal to a portion of the interest costs or the federal tax credit that would otherwise be provided for these bonds. For example, BABs are taxable bonds for which the federal government makes payments to issuers equal to 35 percent of their interest costs.

Nationwide, about $255 million in subsidy payments would be cut for BABs, along with $62 million in payment cuts for qualified school construction bonds and $3 million in payment cuts for qualified zone academy bonds, according to the White House Office of Management and Budget. These cuts would equate to an estimated 7.6 percent reduction in payments to bond issuers in 2013.

If your school districts issued direct-pay bonds under any of these programs, they should consult their bond counsel regarding the effect of sequestration on the subsidy payments. Also, please also urge your school districts that are impacted to contact NSBA about the potential effect that the sequester could have on their local bond programs by emailing Kathleen Branch at kbranch@nsba.org. This information will be helpful in our efforts to urge Congress to cancel sequestration.

For more information on sequestration, please utilize NSBA's talking points and background information and encourage school districts to: share how sequestration would impact them by completing the survey, customize and adopt the sample board resolution, edit and send a letter to their local newspaper editor, and write to senators and representative regarding sequestration.

Your grassroots advocacy is essential to help mitigate these across-the-board cuts to education.

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Virginia School Boards Association, a voluntary, nonpartisan organization of Virginia school boards, promotes excellence in public education through advocacy, training and services.

Sequestration

Sequestration = Across-the-Board Cuts to Education: Urge Congress to Intervene

Education programs face an estimated cut of 8.2 percent or more on January 2, 2013, unless Congress takes action to cancel the budget cuts. These cuts are scheduled to occur through a process called sequestration. Sequestration is defined as the automatic, across-the-board cancellation of budgetary resources. It was put into place as a government wide effort to cut overall federal spending without concern for priority investments like education that are crucial to the long term success of the nation, but are inconsequential in relation to the federal budget. NSBA urges Congress to rescind sequestration to protect our nation's education priorities.

Your Talking Points to Congress

- **A commitment from your representative to act now to rescind sequestration that is scheduled to occur on January 2, 2013, perhaps using the funding bills that Congress is considering for FY2013.**

- **A commitment from your representative to cancel the scheduled across-the-board cuts (sequestration) to education programs if sequestration moves forward.** These cuts would affect every school district and the millions of students they educate. Many school districts have already implemented cuts commensurate to state and local budget conditions. Any further cuts would result in larger class sizes, narrowing of the curriculum, possible four-day school weeks, loss of extracurricular activities, and teacher and staff lay-offs. Describe the budget cuts your school district has implemented, as an example.

- **The initial budget cuts that took place when the Budget Control Act was enacted in August 2011 are sufficient.** The co-chairs of the Bipartisan Policy Center Debt Reduction Task Force, former Senator and Budget Committee Chairman, Pete Domenici, and former Federal Reserve Vice Chair, Dr. Alice Rivlin, have stated that "further significant cuts in discretionary spending will do little to improve long run fiscal sustainability and risk harming investment, recovery, and future growth."

- **State/local governments have very limited capacity to soften the cuts of sequestration.** According to a survey conducted by the American Association of School Administrators (*Cut Deep: How the Sequester Will Impact Our Nation's Schools*), "nine out of ten (90 percent) school administrators [indicated] that their state would be unable to absorb or offset the cuts of sequestration" and their district would be unable to absorb the cuts.

- **NSBA and nearly 3,000 organizations representing millions of Americans have signed a letter to Congress urging Congress and the President to work together to ensure that sequestration does not take effect.** The very programs that are at risk support economic growth, including Title I aid to schools; IDEA funds for students with disabilities; Impact Aid; teacher quality grants; after-school grants; English Language Acquisition grants; and career and technical education.

- **For FY2011, K-12 programs were already cut by more than $835 million.** Additional budget cuts are not feasible for school districts, especially given state and local budget conditions that have impacted education through a series of reductions.

Background

Sequestration is a product of the *Budget Control Act of 2011* that was enacted in August of 2011 as the result of negotiations between Congress and the Administration to raise the national debt limit. In exchange for raising the national debt limit, the law created a Joint Select Committee on Deficit Reduction (called the Supercommittee) that was tasked with developing a plan to produce a savings in expenditures of $1.2 trillion by November 23, 2011. However, the Supercommittee was unable to reach an agreement on how to enact the $1.2 trillion in cuts. Therefore, the Budget Control Act includes a provision stating that in lieu of an agreement or congressional passage of legislation by the Supercommittee, a series of across-the-board budget cuts (also called sequestration) to both defense programs and domestic programs, including education, will occur instead. The impact of sequestration on education

programs that Congress must decide now is an estimated $3.5 billion to $4.1 billion budget cut. This includes an estimated $1.2 billion cut to Title I grants for disadvantaged students and an estimated $900 million cut to special education under the *Individuals With Disabilities Education Act* (IDEA) for the 2013-14 school year.

"More specifically, the resulting $1.2 billion cut to Title I could mean denying funding to nearly 4,000 schools serving more than 1.6 million disadvantaged students, and more than 16,000 teachers and aides could lose their jobs," according to U.S. Department of Education Secretary Arne Duncan.

Secretary Duncan also stated during a hearing before the House Appropriations Subcommittee on Labor-Health & Human Services-Education that the estimated cut would affect special education grants by more than $900 million, "which could translate to the loss of 10,000 special education teachers, aides, and other staff providing...support to children with disabilities."

Please refer to the chart on page 27 which lists the overall impact of an eight percent across-the-board cut to select education programs such as Teacher Quality grants, Impact Aid, and English Language Acquisition. For more information on the projected loss of funds per state, please visit www.nsba.org/lobbyingguide2012.

In some instances, state education agencies are informing districts that sequestration cuts could occur, while in others like Texas, the state is slated to withhold 10 percent of the local grants in case the cuts do go into effect.

Ultimately, Congress can intervene now and rescind the sequestration provision of the Budget Control Act before it is scheduled to become effective on January 2, 2013. For example, Congress could pass legislation rescinding the sequestration as a stand-alone bill, or as a provision in an appropriations measure for FY2013 or any other bill. In a Senate Finance Committee hearing on June 19, former Senator Pete Domenici and former Federal Reserve Vice Chair Dr. Alice Rivlin, who served as co-chairs of the Bipartisan Policy Center Debt Reduction Task Force, stated that the initial cuts (approximately $917 billion over 10 years) that were legislated when the Budget Control Act was first enacted are sufficient. "...Further significant cuts in discretionary spending will do little to improve long run fiscal sustainability and risk harming investment, recovery, and future growth. So far, Congress has imposed virtually 100 percent of deficit reduction on less than 37 percent of the budget."

Recent Legislation

The House of Representatives passed a bill in May called the *Sequester Replacement Reconciliation Act of 2012* (H.R. 5652) that would prohibit sequestration from affecting Department of Defense programs. However, the cuts that were initially slated for defense programs, which were half the $1.2 trillion total, could then be shifted to education and other non-defense programs, thereby more than doubling the amount of the across-the-board cut (i.e. more than 16 percent). Currently, Senate leaders have indicated that they do not plan to consider this legislation.

On June 27, The House Budget Committee unanimously reported H.R. 5872, the *Sequestration Transparency Act of 2012*, which would require the Administration to explain how sequestration would be applied to programs, including the estimated percentage of cuts for each program in Fiscal Year 2013. The House of Representatives subsequently passed this bill by a vote of 414 to 2 on July 18. In the Senate, Senators John Thune (R-SD) and Jeff Sessions (R-AL) have introduced a similar bill. Senators Patty Murray (D-WA) and John McCain (R-AZ) also negotiated an amendment to the recent farm bill requiring the Administration to submit a report on how sequestration will work. Among the items the amendment requires the president to report on is "an assessment of the impact of program cuts to education funding across the country, including estimates on teaching jobs lost, the number of students cut off programs they depend on, and education resources lost by States and local educational agencies..."

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Sample Resolution for School Boards Regarding Sequestration

Please consider customizing and adopting the following sample resolution regarding sequestration that urges Congress and the Administration to mitigate the across-the-board cuts to education that are scheduled to occur January 2, 2013. Also, please forward a copy of your final resolution to kbranch@nsba.org. Thank you.

WHEREAS, a world class public education is essential for the future success of our nation and today's schoolchildren; and

WHEREAS, the Budget Control Act of 2011 includes a provision to impose $1.2 trillion in across-the-board budget cuts to almost all federal programs including education that would become effective January 2, 2013; and

WHEREAS, these across-the-board budget cuts would impact school districts during the 2013-14 school year, with the exception of the Impact Aid program, with which a reduction would become effective this school year; and

WHEREAS, these across-the-board budget cuts, also known as sequestration, would impact education by a reduction in funds of 8.2 percent or more and could result in larger class sizes, fewer course offerings, possible four-day school weeks, loss of extracurricular activities, and teacher and staff lay-offs [INCLUDE EXAMPLES PERTINENT TO YOUR DISTRICT]; and

WHEREAS, sequestration would impact almost every public school system in the nation and the millions of students educated through programs such as Title I grants for disadvantaged students, the Individuals With Disabilities Education Act (IDEA), English Language Acquisition, Career and Technical Education, 21st Century Community Learning Centers, and more; and

WHEREAS, _____[INSERT NAME OF SCHOOL DISTRICT], as well as other public schools, would be impacted nationwide by an estimated $2.7 billion loss from just three programs alone – Title I grants, IDEA special education state grants and Head Start – that serve a combined 30.7 million children; and

WHEREAS, federal funding for K-12 programs was already reduced by more than $835 million in Fiscal Year 2011, and state and local funding for education continues to be impacted by budget cuts and lower local property tax revenues; and

WHEREAS, states and local governments have very limited capacity to absorb further budget cuts from sequestration, as _____[INSERT NAME OF SCHOOL DISTRICT] has already implemented cuts commensurate to state and local budget conditions;

NOW THEREFORE, BE IT RESOLVED, that the _____[INSERT NAME OF SCHOOL DISTRICT] urges Congress and the Administration to amend the Budget Control Act to mitigate the drastic cuts to education that would affect our students and communities, and to protect education as an investment critical to economic stability and American competitiveness.