

School Finance 2005-06

Budget Sets Off Public Battle



FOR THE PAST YEAR, the issue of public education funding has been particularly contentious in California. A pitched political battle between education advocates and the administration of Gov. Arnold Schwarzenegger began with a December 2004 preview of the governor's budget proposal for 2005–06. The fight continued through a spring filled with protests and advertising campaigns, ongoing debate about a special election (now scheduled for Nov. 8), and a final budget adoption in early July. The culmination was in August 2005 when the California Teachers Association (CTA) and State Superintendent of Public Instruction Jack O'Connell filed a lawsuit against the administration based on the budget decisions.

Yet, in the midst of this furor, the business of educating children continues and school districts go about their work within the fiscal parameters decided upon by state leaders. This report explains the policy and financial issues behind the budget battles of 2005. It also describes how much money schools will have this year and how those funds were allocated.

Education funding sparks a battle in Sacramento

As a result of several decades of court decisions and voter initiatives, the amount of funding school districts in California receive is largely determined by the state. Not surprisingly then, the annual passage of California's state budget is the single most important

action in determining how much money schools will have each year. The major governing force behind the funding decision is the minimum-funding guarantee created through voters' passage of Proposition 98 nearly two decades ago.

For the 2005–06 budget, the education funding decision was particularly contentious, revolving around the deter-

Proposition 98 sets a minimum funding guarantee for education

When voters approved Proposition 98 as an amendment to the California Constitution, they sought to guarantee K-14 education (kindergarten through community college) a level of funding that would *at least* keep pace with increases in student population and the personal income of Californians and *at best* increase the amount schools receive.

In practice, the minimum guarantee required under Proposition 98 sets a benchmark for school funding that the state has seldom exceeded and that it has often failed to meet. The calculation of that guaranteed amount is based on the principle that K-14 education should receive at least the same amount as it did the previous year, adjusted for changes in enrollment and per capita personal income. This is referred to as the “Test 2”^{*} guarantee.

The constitution allows state officials to temporarily reduce education funding below the minimum guarantee under two conditions. One is when the state’s General Fund revenues grow less than personal income. This is often referred to as “Test 3.” The other is when two-thirds of the Legislature votes to suspend the guarantee for a given year.

In both cases, the amount saved in that year must begin to be restored to the minimum guarantee level in the next year that state general fund revenues grow faster than

personal income. This hypothetical example explains (in a simplified way) how it works:

- In Year One, the Test 2 minimum guarantee is \$45 billion. But the state’s fiscal condition dictates that Test 3 is in order, providing only \$43 billion.
- In Year Two, state revenues improve and the minimum guarantee must be provided. If the state can afford it, the calculation of the Year Two amount begins from the \$45 billion level because that was the minimum guarantee in Year One. Adjustments for enrollment and personal income growth then proceed from that level.
- The state may not have enough revenue to cover the full amount of the resulting minimum guarantee in Year Two. It has solved this problem by funding below the guarantee and carrying forward a “maintenance factor” that keeps track of what full restoration of the guarantee would amount to. This can be restored gradually as the state’s General Fund revenue growth is sufficient to do so.

The Legislature always has the option of funding K-14 education above the minimum guarantee. When it does so, however, it is also raising the base amount from which the guarantee is to be calculated the following year.

^{*} “Test 1” is that K-14 education receive at least 34.6% of the state budget, a threshold the state easily exceeds.

To readers of our annual school finance update

In a departure from our traditional approach, EdSource is publishing this budget analysis separately from its update of more general education policy and legislative actions. Watch for our policy update before the end of 2005.

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mination of the minimum-funding guarantee. The unprecedented suspension of Proposition 98 last year with the express purpose to decrease the 2004–05 allocation to schools created both ambiguity and dissension.

State allocation rests on an interpretation of 2004–05 policy actions

For 2005–06 the total Proposition 98 funding for public schools and community colleges—or K-14 education—is about \$50 billion. That total is about \$3 billion *more* than was allocated in 2004–05, but it is also about \$3 billion *less* than education advocates believed it should be under state law. At the heart of the issue is what level of funding the state was obligated to provide in 2004–05.

As explained in more detail in the box on this page, Proposition 98 sets a

minimum guarantee for state education funding each year. The exact amount is based on specific formulas, and policymakers must craft the state budget for the upcoming year based on their best estimate of what those formulas will yield. Under Proposition 98, education spending in a given year largely hinges on what was spent the year before.

In 2003–04 K-14 education received \$46.3 billion. Late in 2003, state officials estimated that the minimum guarantee for 2004–05 would be \$48.9 billion. State leaders, led by Gov. Arnold Schwarzenegger, said that meeting the Proposition 98 obligation at that level was out of the question given the state’s budget deficit, combined with other state budget decisions. Among those decisions were ongoing funding commitments to local

Who is the education coalition?

This informal partnership of education unions and professional organizations in California has periodically joined together to speak as one voice on key education issues, including school funding. The members include:

- ACSA:** The Association of California School Administrators
- CASBO:** California Association of School Business Officials
- CCSESA:** California County Superintendents Educational Services Association
- CFT:** California Federation of Teachers
- CSBA:** California School Boards Association
- CSEA:** California School Employees Association
- CTA:** California Teachers Association
- PTA:** California Parent Teachers Association
- SEIU:** Service Employees International Union

governments and other state programs, plus the governor's reduction of a substantial revenue source for the state—the state's Vehicle License Fee (VLF)—rolling it back to the level it had been in 1998.

However, to legally provide less than the Proposition 98 guarantee, two-thirds of the Legislature has to agree to a suspension. In previous years, the educa-

tion coalition fought that action vociferously. As a result, the suspension of Proposition 98 has historically been a political risk lawmakers were not willing to take. This time, however, the governor and the education coalition agreed to a suspension, based in part on education's understanding that Proposition 98 funding would be reduced by the specific amount of \$2 billion. If state revenues exceeded projections, schools would get more; and if revenues were less than projected, schools would get less.

In January 2004 that agreement meant schools would get \$46.9 billion, a reduction of \$2 billion from the estimated minimum guarantee of \$48.9 billion. The state would calculate the 2004–05 allocation by subtracting \$2 billion from the amount K–14 education would otherwise receive under Proposition 98. The Legislature ratified the deal in Senate Bill (SB) 1101 (enacted as Chapter 213, Statutes of 2004).

With that language agreed upon, the education coalition was satisfied that education had assumed its share of the burden in mitigating the state's budget problem while also protecting school funding through a maximum reduction of \$2 billion. Thus, education supporters remained silent while

lawmakers suspended the Proposition 98 funding guarantee for 2004–05.

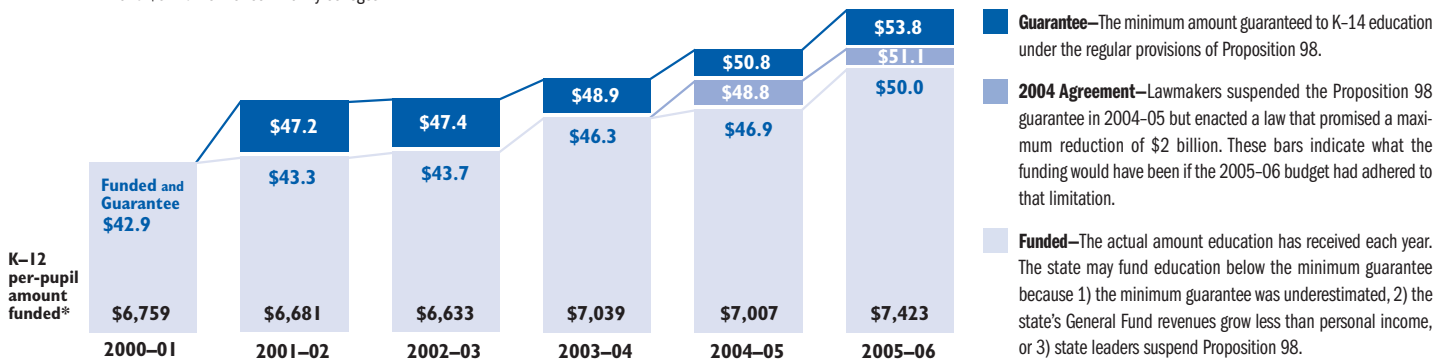
After the budget was signed, it became clear that state revenues were going to exceed estimates. Under normal circumstances that would have been good news for schools because it would have increased the Proposition 98 minimum guarantee to \$50.8 billion for 2004–05. After the \$2 billion reduction, that would have meant an increase in the 2004–05 funding level from \$46.9 billion to \$48.8 billion.

However, that increase in funding for education did not occur. Instead, the governor and Legislature left the funding level for 2004–05 at its original amount, as if state revenues had not risen. *State officials then used that lower number as the base from which the minimum guarantee for 2005–06 would be calculated.* That reduced the state's 2005–06 obligation from \$51.1 billion to \$49.2 billion.

Figure 1 illustrates how this series of actions ended up affecting K–14 education this year and also shows the relationship of the minimum guarantee to actual funding over time. The funding education actually received was \$46.9 billion in 2004–05 and \$50 billion in 2005–06. If lawmakers

figure 1 | K-14 education has been funded below the Proposition 98 guarantee since 2001–02 (all dollar amounts are in billions)

These totals are for K-12 education and community colleges combined. In 2005-06, the \$50 billion total includes \$44.8 billion for K-12 and \$5.2 billion for community colleges.



*Based on Proposition 98 K-12 average daily attendance (ADA) provided by the California Department of Education (CDE).

had honored the \$2 billion maximum reduction called for in Chapter 213, funding would have gone from \$48.8 billion in 2004–05 to \$51.1 billion in 2005–06. If Proposition 98 funding had been at the level of the minimum guarantee, it would have gone from \$50.8 billion in 2004–05 to \$53.8 billion in 2005–06.

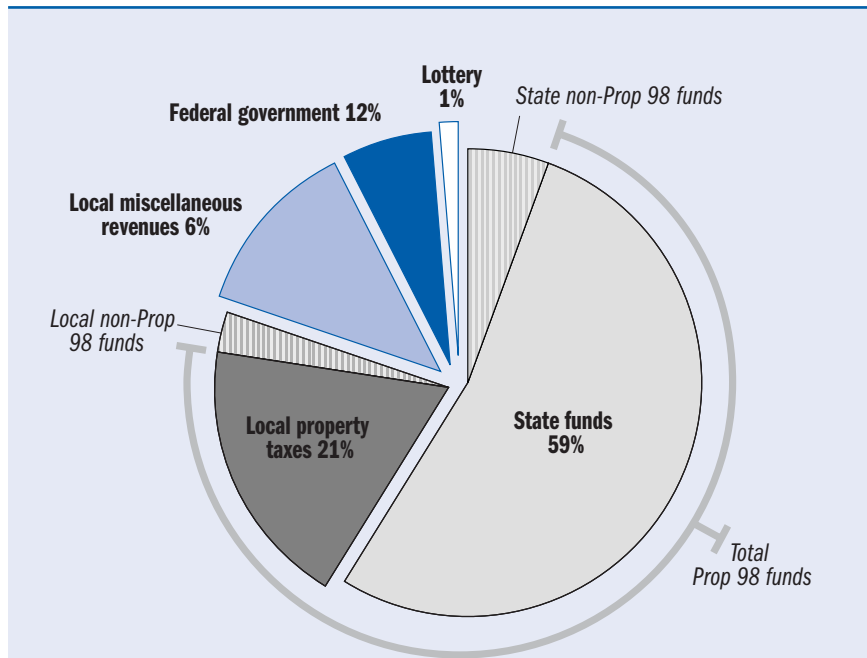
Budget decisions are consistent with LAO recommendations

The governor's education funding proposal for 2005–06 was consistent with a fiscal analysis published by the Legislative Analyst's Office (LAO) in November 2004. In *California Fiscal Outlook: 2005–06 through 2009–10*, the LAO cautioned that if the Legislature adjusted Proposition 98 funding for 2004–05 to the Chapter 213 target level (\$2 billion below the calculated Proposition 98 guarantee for 2004–05), almost the entire increase in state revenues would go to education. Absent other expenditure or revenue adjustments, that would leave the state at the end of 2005–06 with a deficit of \$6.7 billion.

The LAO estimated that by simply not taking action to increase the 2004–05 appropriation, and then calculating the 2005–06 guarantee on that lowered base, the state could reduce its expenditures by \$2.8 billion and bring the year-end deficit down to \$3.9 billion. That would protect other programs from cuts, make it unnecessary for the state to borrow additional money, and alleviate any need to consider tax increases.

Lawmakers decided that they could implement this budget scenario by simply taking no action to increase the 2004–05 allocation to education. They based their action—or inaction—on an interpretation that SB 1101 (Chapter 213) suspended Proposition 98 and therefore the minimum guarantee formula was also suspended. By this

figure 2 | 2004–05 K–12 funding comes from five sources



Total estimated revenues for 2005–06 from all sources is \$62.3 billion, including:

State funds \$36.7 billion (58.9%)

mostly from California sales and income taxes, including about \$3.5 billion not counted toward the Proposition 98 guarantee.

Local property taxes \$13.3 billion (21.4%)

that state lawmakers allocate to schools. The total includes \$1.7 billion not counted toward the Proposition 98 guarantee.

Local miscellaneous revenues \$3.9 billion (6.2%)

includes community contributions, interest income, developer fees, and revenues from local parcel tax elections.

Federal government \$7.6 billion (12.3%)

earmarked for special purposes, most notably Child Nutrition, No Child Left Behind (NCLB), Special Education, and child care.

Lottery \$0.8 billion (1.3%)

projected at about \$125 per student (ADA) in unrestricted revenues plus \$29 per ADA to be used only for instructional materials.

Projected California public school average daily attendance (ADA)*:

6.03 million K–12 students (for the purposes of Proposition 98) plus about 430,000 students in adult education and regional occupational programs.

*ADA is the total number of days of student attendance divided by the total number of days in the regular school year. A student attending every day would equal one ADA.

DATA: CALIFORNIA DEPARTMENT OF EDUCATION (CDE)

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For an explanation of per-pupil funding calculations and amounts, see the EdSource publication: *What accounts for the difference between education revenues and expenditures?* Available to download for free at: www.edsource.org

logic, the state had no obligation to give schools a share of any new revenues that were not part of the 2004–05 budget.

CTA and State Superintendent O'Connell are suing the state

Education advocates, on the other hand, say that schools were due those funds because the language in Chapter 213 specifically sets out the \$2 billion as the agreed-upon reduction. They became very vocal when they realized that part of Chapter 213 would be ignored. Throughout the budget process from January to June 2005, the education coalition leaders and their constituents strongly protested the governor's budget recommendation. They were, as noted above, unsuccessful in that effort.

In August 2005 the California Teachers Association (CTA) and state Superintendent of Public Instruction Jack O'Connell filed suit against the governor and other state officials. They charged that the state's education allocations for both 2004–05 and 2005–06 violate the funding obligation under Proposition 98 and state statutes under Chapter 213, which were an integral part of the 2004 suspension.

The suit was filed in Sacramento Superior Court on behalf of several school children and is referred to as *California Teachers Association v. Schwarzenegger*. A court representative reports that there may be some action in November.

The November election could have a long-term effect on funding

Regardless of how the CTA/O'Connell lawsuit is resolved, under current law the state is obligated to eventually restore \$3.8 billion to the minimum guarantee. On Nov. 8, California voters will have an opportunity to decide, indirectly, whether they believe that restoration is appropriate.

Proposition 76—an initiative sponsored by the governor—would

stretch over 15 years the state's repayment of the \$3.8 billion. More significantly, it would remove the current constitutional requirement that this amount be added to the minimum guarantee going forward. The net effect would be a long-term reduction in the amount the state is required to provide to K–14 education based on Proposition 98. It would also make other substantive changes in the way that Proposition 98 works. EdSource has developed an analysis of Proposition 76 that explains this in more detail. It is available for free to download at: www.edsource.org

Total funds for K–12 and community colleges increase

While the longer-term issues of school funding in California must wait for court and voter decisions, schools and school districts have begun a new year based on the budget state leaders approved during the summer.

State, federal, and local sources fund K–12 education

In 2005–06, K–12 schools will receive close to \$45 billion from Proposition 98 sources, plus about \$5.2 billion more from state and local property tax sources that are not part of Proposition 98 funding. The non-Proposition 98 state funds are allocated for various purposes including repayment of bonds, contributions to the State Teachers Retirement System (STRS), and certain expenditures that cannot be counted toward Proposition 98, such as the budget for the California Department of Education (CDE). Among the non-Proposition 98 funds listed under local property taxes, a substantial portion is local debt service, which is made up of the taxes school districts collect and use to pay their own General Obligation Bonds.

As Figure 2 on page 4 shows, another \$12.3 billion comes from a combination of the federal government, the California State Lottery, and “local miscellaneous” sources.

Federal funding is unchanged

In contrast to the recent past when federal funding has increased substantially, this year the total amount of federal funding remains virtually static. For 2005–06 it is \$7.6 billion, just \$49 million more than was provided in 2004–05. Almost all of the federal money is earmarked for specific purposes, such as compensatory programs for disabled and low-income students. It represents 12.3% of total K–12 funding.

The changes in federal funding vary by program. Special Education increased by \$60 million. The increase in funding for child care was also notable, going from \$908 million to \$971 million. But despite population increases in California, there is virtually no change in Child Nutrition or in Title I, the cornerstone of the federal government's No Child Left Behind (NCLB) program. And some federal programs are being cut, with reductions exceeding 20% in a few cases. Those cases include funds devoted to innovative programs (under Title V of NCLB), rural and low-income schools, comprehensive school reform (Title I), education technology, charter schools, drug free schools, and assessment (Title VI).

While the total funds for Title I are relatively unchanged, school districts vary in the increases or decreases they will experience. According to estimates from the CDE, about 15% of districts will see some increase in Title I funds this year and almost half will experience a reduction of 5% or more. These variations reflect the manner in which the federal government calculates the Title I funding formula and the

figure 3 | **These California counties made the most attempts at parcel tax elections between September 2000 and June 2005**

| County | No. of School Districts | % of Districts that Held Elections | Total Elections Attempted | % of Elections that Passed |
|------------------|-------------------------|------------------------------------|---------------------------|----------------------------|
| Santa Clara | 32 | 50.0% | 25 | 48.0% |
| San Mateo | 23 | 52.2% | 20 | 60.0% |
| Sonoma | 40 | 32.5% | 18 | 44.4% |
| Marin | 19 | 47.4% | 14 | 85.7% |
| Alameda | 20 | 40.0% | 13 | 92.3% |
| Contra Costa | 18 | 38.9% | 12 | 66.7% |
| Los Angeles | 84 | 9.5% | 10 | 50.0% |
| Statewide | 989 | 10.2% | 145 | 54.5% |

DATA: CALIFORNIA EDUCATION DATA PARTNERSHIP (ED-DATA), www.ed-data.k12.ca.us

EdSource 10/05

presumed movement of low-income children within the state.

Most of Title I funding is based on the number of “formula children” in a school district. “Formula children” are students between the ages of 5 and 17 whose family income falls below the federal poverty line. The identification of those families is based on census data, which are now being updated annually. Information from 2002 was used as the basis for 2005–06 allocations. These data are based on the number of children in the “area of residence,” which includes children who may attend schools out of the area (e.g., inter-district transfers), private schools, and charters.

To determine how much money will go to each district, the number of “formula children” is multiplied by 40% of the state’s average per-pupil expenditure. California’s relatively low level of spending per pupil means that the state receives less per pupil from Title I than 28 other states. This year the federal government did not allocate enough money to fully fund Title I, causing the amount to be prorated. The funding is provided to the state as a single grant, and the CDE allocates the funds to districts.

Local miscellaneous revenues are uneven among districts

The local miscellaneous category—taken in the aggregate—is expected to represent about 6.2% of school funding or about \$3.9 billion. This funding, which is independent of local property tax revenues, comes from sources that are controlled locally and that range from local parcel tax proceeds to interest income to donations from parents and community members. As such, it varies widely among districts both in terms of the amount per pupil and the portion of total funding.

At the extremes in terms of the amount of local miscellaneous revenues they receive per pupil are two districts with very different situations:

- Midway Elementary School District in Kern County reported \$5,752 in local miscellaneous revenues for each of its 85 students in 2003–04. The district is in the unique position of having created a trust fund when it had booming oil fields and booming property tax revenues. That trust fund today provides the tiny district with substantial interest income.
- Corona-Norco Unified School District in Riverside County reported the lowest per-pupil amount, at just \$14 for each of its

43,998 students. The district is located about 45 miles southeast of Los Angeles and is experiencing rapid growth. In recent years, it has developed from a largely agricultural community to a neighborhood of commuters.

While exceptions exist, the districts with the highest revenues in the local miscellaneous category often serve students from wealthier neighborhoods. This is the budget category in which, for example, money raised by local education foundations is reported.

Parcel taxes, which also fall into this category, can represent a substantial source of revenue; but they have been passed in relatively few communities. These taxes are a flat per-parcel rate—or sometimes a per-square-foot rate—as opposed to a tax based on the value of property (an ad valorem tax). They require approval by two-thirds of local voters and are typically of limited duration, such as five years.

Since 2000–01, local voters have approved 79 out of 145 parcel tax measures. In 2004, 43 elections were held, the highest number in any calendar year to date. Voters approved 24 of those local measures. As Figure 3 shows, a disproportionate number of those elections have been in the San Francisco Bay Area. In addition, about 90% of the elections were held in districts that were below the state average of 49% low-income students. The assumption is that wealthier communities are better able and more willing to tax themselves to improve their schools. Just five districts that have passed parcel taxes since 2000—all of which are in the Bay Area—serve a higher-than-average proportion of low-income students. They include Ravenswood City Elementary in San Mateo County, Alum Rock Elementary in Santa Clara County, West Contra Costa Unified in Contra

figure 4 | State and federal education money is earmarked for special purposes

| Major State Programs (all dollar figures are in millions) | 2004-05 | 2005-06 |
|---|---|---------|
| Special Education | \$2,719 | \$2,890 |
| Class Size Reduction (K-3) | 1,652 | 1,676 |
| Child Care and Development (includes reappropriations of one-time funds) | 1,355 | 1,391 |
| Adult Education (includes \$14.6 million for adult education in correctional facilities in 2004-05, and \$15.3 million in 2005-06) | 578 | 617 |
| Economic Impact Aid | 536 | 587 |
| Pupil Transportation | 492 | 516 |
| Regional Occupational Centers and Programs | 356 | 381 |
| Instructional Materials | 363 | 361 |
| Summer School/Supplemental Instruction | 278 | 291* |
| Deferred Maintenance | 238 | 268 |
| High Priority Schools Grant Program | 193 | 239 |
| Class Size Reduction (9th grade) | 110 | 110 |
| Child Nutrition | 92 | 97 |
| Year-round Education Grant Program | 84 | 88 |
| Student Assessment | 79 | 86 |
| Charter School Categorical Programs | 53 | 62 |
| English Learners (EL) | 55 | 58 |
| School Safety Block Grants | 2 | 53 |
| California School Age Families Education (CalSAFE) | 51 | 53 |
| Gifted and Talented Education (GATE) | 44 | 46 |
| Community Day Schools | 41 | 42 |
| Note: Additional programs are funded for less than \$40 million. | | |
| New State Categorical Block Grants (all dollar figures are in millions) | 2004-05 Spending on Separate Programs** | 2005-06 |
| Targeted Instructional Improvement Block Grant (includes Targeted Instructional Improvement Grants and supplemental grants) | \$832 | \$876 |
| Library Improvement Block Grant (includes library materials and school improvement programs) | 391 | 422 |
| Professional Development Block Grant (includes Instructional Time and Staff Development, intersegmental programs, and Teaching as a Priority) | 246 | 249 |
| Teacher Credentialing Block Grant (includes BTSA) | 81 | 88 |
| Pupil Retention Block Grant (includes 10th grade counseling, dropout-prevention programs, etc.) | 50 | 87* |
| School Safety Consolidated Competitive Grant (includes school safety grants, School Community Policing Partnership Act, School Community Violence Prevention, etc.) | 19 | 16 |
| Major Federal Programs (all dollar figures are in millions) | 2004-05 | 2005-06 |
| ESEA Title I - Extra Support for Students Who Live in Poverty | \$2,050 | \$2,017 |
| Basic Grants | 1,727 | 1,727 |
| Reading First | 174 | 152 |
| Migrant Education | 136 | 125 |
| Homeless Children Education | 9 | 9 |
| Advanced Placement Fee Waiver | 4 | 4 |
| Child Nutrition | 1,617 | 1,617 |
| Special Education | 1,091 | 1,149 |
| Child Care and Development Programs (includes CalWORKS and reappropriations of one-time funds) | 875 | 963 |
| ESEA Title II - Improving Teacher and Administrator Quality | 435 | 410 |
| Part A - Improving Teacher Quality | 324 | 322 |
| Education Technology | 91 | 64 |
| Math and Science Partnership Grants | 20 | 24 |
| ESEA Title IV - 21st Century Schools | 216 | 222 |
| After-school Programs | 163 | 181 |
| Safe and Drug Free Schools and Communities | 53 | 41 |
| ESEA Title III - English Learners and Immigrant Students | 155 | 148 |
| Vocational Education | 137 | 138 |
| Adult Education | 82 | 79 |
| ESEA Title V - Innovative Programs | 113 | 51 |
| Comprehensive School Reform Program | 44 | 30 |
| Innovative Programs | 40 | 21 |
| II/USP and High Priority Schools Grant Program | 29 | 0*** |
| ESEA Title VI - Assessment Funding | 41 | 33 |

* Includes legislation affecting appropriations subsequent to the Budget Act.

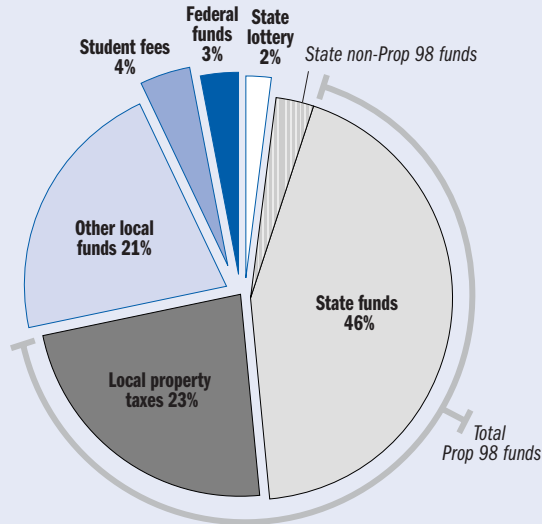
** Based on EdSource analysis of Assembly Bill 825 (November 2004).

*** High Priority Schools Grant Program was allocated \$600,000 from the Federal Trust Fund in support of the Department of Education.

DATA: 2004-05 AND 2005-06 BUDGET ACTS AND OTHER LEGISLATION

EdSource 10/05

figure 5 | **California community colleges receive funding from multiple sources**



Total estimated revenues for community colleges in 2005–06 from all sources is \$8 billion, including:

State General Fund \$3.7 billion (46%)

includes \$3.4 billion from Proposition 98 sources.

Local property taxes \$1.8 billion (23%)

Other local funds \$1.7 billion (21%)

includes \$175 million from local debt service.

Student fees \$355 million (4%)

based on fees of \$26 per unit and an estimated headcount of more than 1.6 million students.

Federal funds \$276 million (3%)

California State Lottery \$140 million (2%)

projected at about \$125 per full-time-equivalent students (FTES) in unrestricted revenues plus \$29 per student to be used only for instructional materials.

DATA: CALIFORNIA DEPARTMENT OF FINANCE (DOF)

EdSource 10/05

Community colleges serve more than 1 million students

California has 109 community college campuses operated by 72 locally governed districts. Campuses vary in size from a few hundred students to more than 33,000 at Mt. San Antonio College. Based on agreements with local school districts, some community colleges offer adult education programs that include noncollege-level courses. Many also offer career and technical programs.

Due to a high number of part-time students, community colleges keep track of enrollment two ways:

- For the fall semester of 2004, the total headcount of individuals who attended any community college program was 1.6 million.
- For 2004–05 full-time-equivalent students (FTES) totaled 1.09 million. Assuming a 3% enrollment growth in 2005–06, the projected enrollment for 2005–06 would be 1.12 million FTES.

DATA: CALIFORNIA COMMUNITY COLLEGES CHANCELLOR'S OFFICE

EdSource 10/05

Costa County, and both Emery Unified and Oakland Unified in Alameda County.

State and local bonds provide funds to build and repair schools

While local school operating budgets are largely determined by the state budget adoption each year, most of the funding for facilities comes from other sources. Between 2001 and 2004, California voters approved more than \$22 billion in state bonds to build and repair schools. In addition, from January 2001 to June 2005, local voters approved \$23.9 billion in local bond measures for the same purposes and to help districts raise “matching funds” needed to qualify for the state bond proceeds.

With these funds available, immediate facility needs appear to be fairly well covered. The Office of Public School Construction (OPSC) reported in June 2005 that \$6.9 billion remains from the recent state bonds. However, OPSC's quarterly update also noted that unfunded eligibility applications currently total \$15 billion. This total is not representative of projects that are ready to build, but rather it is based on district applications that reflect their need for modernization or new facility funds. The state has not approved project designs for the bulk of these applications. Nevertheless, if the total is an accurate barometer of future needs, California may be facing calls for another state bond in the near future.

While state and local bond proceeds are not part of Proposition 98 funding, the 2005–06 education budget includes some Proposition 98 funds devoted to facilities. First, it provides \$267.9 million to match school district expenditures for deferred maintenance. Second, it allo-

figure 6 | Base revenue limits vary by district type

These reflect the average per-pupil amounts each type of school district receives for general purposes. The precise amount for each district will vary based on historical formulas. Small school districts receive somewhat more.

| Year | Elementary | High School | Unified |
|---------------------|------------|-------------|---------|
| 2004-05 | \$4,776 | \$5,742 | \$4,983 |
| 2005-06 (estimated) | \$4,978 | \$5,985 | \$5,194 |

DATA: CALIFORNIA DEPARTMENT OF EDUCATION (CDE)

EdSource 10/05

catates \$196 million in one-time funds for the School Facility Emergency Repair program, which came out of the 2004 settlement of the *Williams v. California* lawsuit. The settlement created this program to meet “emergency facility needs” in the state’s lowest-performing schools. When districts repair structures or systems that pose a threat to student or staff health and safety in eligible schools, they can apply for reimbursement through this fund. The State Allocation Board approves the funding requests.

Community college funding is also governed by Proposition 98

Community college funding is connected to K–12 education because of Proposition 98. The state and local property tax revenues allocated to California’s community colleges represent about 69% of their total revenues for 2005–06. As Figure 5 on page 8 shows, another \$1.7 billion comes from other local sources, and an estimated \$355 million is from student fees. Federal funding and the state lottery also contribute to the total.

In 2005–06 community colleges will receive about 10.4% of the total Proposition 98 funding of almost \$50 billion. This compares to a share that was about 10.2% last year and reflects a state funding increase of \$442 million. As is the case with K–12, the largest portion of that increase is for a cost-of-living adjustment (COLA) and enrollment growth. The COLA of 4.23% nets the community colleges

\$210 million. Funding for 34,000 additional full-time-equivalent students (FTES)—based on a 3% increase—totals \$142 million.

The balance of the community college increase restores \$31.4 million in general apportionment funding that was vetoed in 2004–05; provides \$30 million for funding equalization among community college districts; and contributes \$14 million to expand nursing programs (\$4 million of which is one-time funding). In addition, community colleges will receive \$20 million in one-time funds to support expansion of career technical education and \$10 million in reimbursements for the cost of complying with state mandates in prior years.

The budget also reflects state officials’ expectations that community college revenues from “local funds” will increase \$700 million over the 2004–05 projections.

Funds go to K–12 districts based on established formulas and priorities

The story of school finance in California involves not only how much money is available to schools, but also how those funds are distributed. In general, school districts and county offices are the fiscal agents for schools, and they receive state funds in two ways. About two-thirds is “revenue limit” funding that districts spend for general purposes. The balance is “categorical aid” earmarked for special purposes. Much of this funding is targeted to particular groups of students, such as

those with disabilities. In addition, some pays for specific programs, such as K–3 Class Size Reduction. The 2005–06 budget made no substantive change in the proportion of general purpose versus categorical funds.

Revenue limits receive substantial COLA

Nearly all California school districts receive revenue limit funding as the core of their general operating budgets. They use this money for the day-to-day operation of schools, including everything from the telephone bill to teacher salaries. In most districts, personnel costs represent between 80% and 90% of the general operating budget.

The total a school district receives each year is based on a specific amount per pupil. That amount is calculated using formulas set by law and based on historical funding levels. Within each of six district types—i.e., large and small elementary, unified, and high school districts—districts receive more or less equal base revenue amounts for each student. (See Figure 6.) No adjustments are made for regional differences in the cost of living or the characteristics of the students being served. A district’s total revenue limit is the product of its per-pupil amount multiplied by its average daily attendance (ADA).

Approximately two-thirds of this year’s increase in Proposition 98 funds goes to school districts for revenue limit increases, including:

- \$189.7 million to cover the cost of 41,095 additional students statewide (an estimated growth rate of 0.7%);
- \$1.3 billion for a legally required cost-of-living adjustment (COLA) of 4.23%; and
- \$406 million to address a deficit in revenue limit funding from previous budgets.

The budget also has \$60.6 million to reimburse districts for extra costs they

Lawmakers used one-time funds for various purposes and programs

These funds come from the Proposition 98 Reversion Account in the state's General Fund. It holds funds appropriated for a Proposition 98 purpose in a prior year but not spent. Because these funds were counted as meeting the Proposition 98 guarantee in the prior year, the money has to be spent for Proposition 98 purposes in a subsequent year.

Proposition 98 Reversion Account Reappropriations over \$1 million

| Purpose | Amount |
|---|---------|
| School Facilities Emergency Repair Account | \$196.0 |
| Prior year obligations for K-12 mandate claims | 53.8 |
| Low-performing School Enrichment Grants | 49.5 |
| Fruits and Vegetables for Breakfast initiative | 18.2 |
| CalWORKs Childcare | 10.0 |
| Charter School Facility Grant Program | 9.0 |
| Sunnyvale desegregation claims (owed through 1991-92) | 6.4 |
| Start-up costs, new California English Language Development Test contract | 2.2 |
| Pilot training program for school business officers | 1.1 |

DATA: SENATE BILL 65, ENACTED OCTOBER 2005

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have incurred in order to meet specific state mandates. Districts submit claims for these unfunded mandates each year; but the state has postponed paying those claims in recent years, in large part because of California's fiscal crisis. Because the expenses these reimbursements cover have already been incurred, districts can use these funds as they wish. However, they are one-time funds, meaning that districts cannot count on the same amount in future years. The state currently owes schools about \$1.5 billion for mandate claims it has not reimbursed. It will eventually have to repay this debt with interest.

Policy actions on categorical programs are limited in 2005-06

Another substantial portion of the funding increase covers enrollment growth and COLA for the majority of state categorical programs. Aside from these increases, changes to categorical programs were minimal.

For school districts, the most notable change is not due to new laws

passed this year but to the implementation of Assembly Bill (AB) 825, passed last year. That bill consolidated 20 separate programs into six block grants. Those programs represent about \$1.7 billion in funds, as noted in the table on page 7. The intent of the legislation was to provide districts with additional flexibility in how they spend and report on funds while still protecting specific state goals, such as pupil retention and teacher professional development. New rules for these programs—and for fund transfers in and out of them—have been issued by the CDE.

In August, legislators also approved a major modification to the Pupil Retention Block Grant created by AB 825. As originally passed, it included several of the state's supplemental instruction programs. The August action removed those from the block grant, leaving a much smaller group of programs focused on safety and drop-out prevention. All supplemental instruction programs are now grouped together with

summer school, but as separate programs with their regulations unchanged.

Special Education stands out among categorical programs

The largest categorical program is Special Education, which this year received an additional \$20.2 million in state funds for enrollment growth and a \$124 million increase for COLA. That brings the state's total allotment for Special Education to almost \$2.9 billion. Federal funds add another \$1.1 billion. The combined funds pay for a large portion of the Special Education services provided to about 11% of students in California.

The budget also provides an extra augmentation for Special Education, with about \$48 million of it to be used for any one-time purpose. First priority for the use of these funds, however, is to provide intensive instruction for students with disabilities in the class of 2006 who have yet to pass the California High School Exit Exam (CAHSEE).

New initiatives get one-year funding

Education will also receive funds for a very limited number of new initiatives. These funds are all being provided on a one-time basis. In other words, neither the governor nor the Legislature has committed to the continuation of these programs in future years. In one manner or another, all were targeted at improving academic achievement.

Beginning with the high school class of 2006, students must now pass the CAHSEE to earn a diploma. As this group of students entered their senior year, about 78% had passed both the English language arts and math portions of the test. State policymakers dedicated an additional \$20 million to support supplemental instruction for the remaining students who have not passed both sections, with schools with the highest percentage of these students

given priority for the funds. Schools will receive \$600 for each student who has not yet passed the exam.

A new \$49.5 million program funds Low-performing School Enrichment Grants. Districts apply for the grants on behalf of their schools in deciles 1–3—the bottom 30% statewide—based on the 2004 Base Academic Performance Index (API). The applications must include a plan for using the funds for such things as promoting a safe, clean school environment; providing support services for students and teachers; and paying for recruitment and retention incentives for highly qualified teachers. Districts will receive up to \$50 per student in qualifying schools, with the amount prorated if there is not enough funding for all the schools that apply.

State lawmakers also provided \$18.2 million for the governor's Fruits and Vegetables for Breakfast initiative. This program gives districts funding to augment school breakfast programs with healthier foods. Details of this program were included in SB 281, which was passed by the Legislature in September.

A large portion of funds pay for services outside of K–12 education

More than \$3.4 billion of the revenues officially allocated to California's public schools are used for purposes outside of educating kindergarten to 12th grade students. In general, these services are provided under the supervision of local school districts. In the state budget, they are counted as education revenues and are included in the Proposition 98 guarantee for K–12 schools.

A variety of these programs provide care for children outside of the regular K–12 classroom. Almost 600,000 preschool and school-age children receive services through a variety of Child Care and Development

and State Preschool programs. For 2005–06 the state increased funding for these programs by more than 2.7%, for a total of \$1.35 billion. In addition to this total, \$122 million in Proposition 98 funds is continuously appropriated for the After School Education and Safety Program. Federal funds for Child Care and Development Programs total \$971 million, to which is added another \$181 million for federally supported after-school programs. That brings the funding for child care and development in the K–12 budget to almost \$2.7 billion.

State law allows both unified and high school districts to operate Adult Education Programs. For this year, \$617 million in state Proposition 98 funds will go to districts to support these programs. The program areas include adult literacy, English as a second language, career technical education/apprenticeships, parenting classes, and programs for older adults and those with disabilities. About \$15 million of those state funds pay for programs operated in county jails. Another \$79 million in federal funds also goes to adult education programs. In addition, the state allocates \$50 million annually for community-based adult English language instruction as required by Proposition 227, which was passed by voters in 1998. In total, the K–12 system receives \$746 million to administer these adult education programs.

In addition, the 2005–06 budget includes \$381 million for the state's 74 Regional Occupational Centers/Programs (ROCPs). This represents a \$25 million increase in funding from 2004–05. While many high school students attend these programs, adult students often do as well. In 2003–04 about 165,000 out of the 500,000 individual students served were adults. However, a large portion of students

To Learn More

For further information about California's school finance system and the 2005–06 education budget, see the following:

- *California Fiscal Outlook: 2005–06 through 2009–10*, Legislative Analyst's Office, November 2004, www.lao.ca.gov
- California Department of Finance, www.dof.ca.gov, click on Latest Budget Information in the left column, then click on State Budget Highlights.
- *Proposition 76: State Spending and School Funding Limits*, September 2005 (download for free), www.edsource.org
- Ed-Data Partnership website, www.ed-data.k12.ca.us, to find and compare school district financial information.
- California Budget Project, www.cbpp.org, click on State Budget in the left column.

For more information on school finance, go to www.edsource.org, click on Education Issues in the yellow bar, and scroll to School Finance. Also click on Publications in the yellow bar for a number of EdSource reports on school finance and other issues as well as shorter publications that can be downloaded for free.

do not attend full time, and some may attend only a single class. As a result, funding is allocated based on the number of full-time-equivalent students (FTES). Data is unavailable on what percentage of that FTES count is high school students.

Charter school funding process differs from the rest of K–12

California will have approximately 582 charter schools in 2005–06, an increase of 64 from the prior year. The amount of charter school funding is calculated based to a large degree on the amount school districts receive. The way those funds are allocated is different, however.

First, each charter school receives a set amount per student in a general-purpose block grant based on its students' grade levels. These amounts are estimates that are recomputed during the school year. They take the

place of the revenue limit funding school districts receive. For 2005–06 the estimated per-pupil amounts are as follows:

- \$4,964 for kindergarten–grade 3
- \$5,036 for grades 4–6
- \$5,182 for grades 7–8
- \$6,019 for grades 9–12

The state also gives each charter school a categorical block grant in place of numerous categorical programs for which districts receive funding. The per-pupil amount for 2005–06 is estimated at \$287, which could be adjusted during the year depending on the total statewide average daily attendance (ADA) of charter school students. Lawmakers passed AB 740 this year, which will change both the amount and calculation of the categorical block grant in the future.

Charter schools also receive extra general-purpose money for each student they serve who is identified as low income or an English learner. This is in lieu of the Economic Impact Aid that school districts receive. For 2005–06 this amount is expected to be \$119 per pupil. Some charter schools also receive federal Title I funds to provide extra support to the same students. In addition, they receive the same per-pupil amount that districts get from the state lottery.

Facility costs are an ongoing issue for charter schools. The state will be providing \$9 million to reimburse schools for some expenditures in 2004–05. In addition, a new federal grant program will make \$19.7 million more available.

This school year will be as difficult for many districts as it was for state leaders

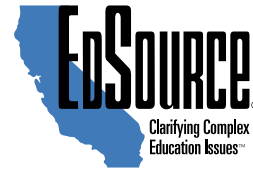
In 2005–06 it appears—at least on the surface—that California maintained the status quo in terms of education funding. The increase in

state funding was sufficient to pay for new students and the officially calculated increase in the cost of living. There was virtually no increase in federal funds and little added revenue expected from the local miscellaneous funds districts raise themselves.

Unlike the years when the state and federal governments first introduced their accountability systems, the year also lacked major new programs. A subsequent EdSource report will explore the important changes in policy and regulations for some existing programs.

This statewide perspective, however, obscures the variety of financial situations local districts face. Almost half of the school districts in the state are seeing their enrollment decline, and that means a reduction in revenues. Responses to those reductions can include closing schools, laying off teachers, and other cost-cutting actions that create controversy for school district leaders. All districts also face pressure to increase expenditures, in particular because of rising health insurance premiums for active employees and retirees, escalating energy costs, and likely demands for salary increases geared to this year's COLA. On the other hand, a school district's failure to adequately control its costs—and make cuts if necessary—can push it into deficit spending in the short term and perhaps financial insolvency over the long haul. When the latter occurs, districts can face serious consequences, including in rare instances state takeover.

The balancing act between revenues and expenditures is difficult for school district leaders, just as it is for California's governor and Legislature. In years like 2005–06, when budget decisions become the subject of heated controversy, the task becomes more challenging for everyone. ■■



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