



Challenging Times: California Schools Cope with Adversity and the Imperative To Do More

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California school districts face critical and competing pressures. Asked on a recent survey to identify their most important strategic objectives, district officials' two most common responses were "improving academic achievement" and "remaining fiscally solvent."

Some districts have taken drastic actions in the past two years to make ends meet, often at the expense of educational programs. A record number of districts report that they may be unable to meet their financial obligations. And it appears that further funding cuts are on the horizon. Meanwhile, the pressure to successfully prepare all students for college and career has never been greater.

Reports from throughout the United States make it clear that California's school districts are not alone. U.S. Secretary of Education Arne Duncan recently cautioned schools that tough economic times are likely to continue and that "doing more with less" is the "new normal." Duncan went further in a Nov. 17 speech at the American Enterprise Institute, a conservative think tank. "I believe enormous opportunities for improving the productivity of our education system lie ahead if we are smart, innovative, and courageous in rethinking the status quo."

Does this expectation realistically apply to California? Or are our public schools

already so leanly run and so tightly strapped that further cuts are impossible without hurting the quality of schooling for California's children? And to what extent are the new initiatives and policies created by the federal and state governments—as part of their rethinking of the status quo—likely to help California's schools "do more" in terms of student achievement "with less" in terms of resources?

This report examines the financial circumstances of California's school districts and the actions they have been taking to cope with these competing demands. It looks at the various forces that govern both the revenues they receive and the expenditures they make, and the added pressures they face due to the insolvency of California's state budget and the fact that the 2010–11 budget was the latest in the state's history.

As a result of that late budget, EdSource's usual summary of the current year budget for K–12 education is not included in this report. Watch for an EdSource Budget Brief in January that describes those decisions in detail.



California's school districts face competing priorities

In fall 2009, the nonpartisan Legislative Analyst's Office (LAO), which provides budgetary and policy advice to the Legislature, surveyed school district and county office of education superintendents regarding their spending and fiscal planning. Of the 1,043 local agencies that received the survey, 231 responded, representing 37% of the state's students.¹

The questionnaire asked districts whether they had a strategic plan in place for the 2009–10 school year, and if so, what the three most important objectives of the plan were. Of the 205 districts that listed their objectives, the five most common responses were:

1. Improve academic achievement;
2. Remain fiscally solvent;
3. Close the achievement gap/help struggling students;
4. Improve English learners' performance;
5. Modernize facilities.

That list of priorities makes it clear that local school agencies face the challenge of striking a balance between helping their students learn and meeting their financial obligations.

Total revenues for local schools have decreased in recent years

California's K–12 school agencies—districts, county offices of education, and charter schools—receive about \$60 billion per year. Those funds come from several sources. The two biggest sources—the state General Fund and local property taxes—have provided less funding in recent years. Not only are revenues to local school agencies down, but large portions of funding are also being delayed.

Education funding comes from several sources

The money for running schools and district offices, which includes everything from textbooks and teachers' salaries to cleaning supplies and utility bills, comes from multiple sources. The state's general fund, local property taxes, and the federal government are the major ones, providing about 90% of the dollars that local school agencies receive. The state controls the allocation of more than three-quarters of total funds.

figure 1 | The five major sources of revenues for K–12 education in California include state, federal, and local funds

Average Contribution During the Past 10 Years, by Funding Source	
The portion of funding that each source has supplied varied from 2000–01 through 2009–10, so the highlighted percentages represent the average contribution during those 10 years.	
55%	State general fund , which is comprised of personal income, sales, corporate, and capital gains taxes. This source has provided between 50% and 60% of K–12 education's funds during the past 10 years. Several factors have contributed to the variation, including policymakers' shifting of property taxes between school districts and other local governments; temporary increases in federal funding; and a drop-off in state revenues in the past three years due to the economic downturn. Since 2008–09, the percentage has been relatively low.
22%	Property taxes , which are collected by counties. The state determines how to allocate them among school districts and other local governments. When California voters passed Proposition 13 in 1978, they established in the state constitution a cap on the level and annual increase in property taxes. During the past 10 years, the percentage of education funding coming from property taxes has ranged from 19% to 26%. In the past two years, the contribution has been about average.
13%	Federal government , which generally provides only categorical funding (money earmarked for specific purposes, such as compensatory education for low-income students). However, the recent federal stimulus package provided a large but temporary infusion of mostly discretionary funds for local school agencies. The stimulus funds, available from 2008–09 through Sept. 30, 2011, increased considerably the share of funding provided by Washington, D.C. Prior to 2008–09, the federal portion comprised about 12%, but it rose to 18% in 2008–09 and 16% the following year.
8%	Local miscellaneous sources , such as donations to local schools, interest income, parcel taxes, and lease and rental income. School districts and their communities largely control these revenue sources. The amounts vary dramatically from one district to another. Statewide, the portion of funding that local miscellaneous sources have contributed has been relatively constant; but in the past two years, there has been a slight uptick.
1.6%	State lottery . Until April 2010, a minimum of 34% of lottery ticket revenues had to be distributed to public schools, colleges, and universities for the instruction of students. However, the recently enacted Assembly Bill 142 requires the California Lottery Commission to increase the percentage of revenues returned to the public from 84% to 87% and redesign its distribution formulas to maximize the total net revenues for public education. Lottery administrators predict the contribution to the education sector will rise by 7% between 2009–10 and 2010–11 as a result. ²

DATA: CALIFORNIA DEPARTMENT OF EDUCATION (CDE)

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School districts receive funding in two forms

Funding comes to districts either as unrestricted or restricted. Unrestricted revenues, which represent about 70% of the average district's funding, can be spent on whatever the district thinks is appropriate. These monies are often referred to as general purpose funds. In contrast, restricted revenues are dedicated to a specific category of activities or type of students (e.g., English learners). Many of these latter funding sources are thus called "categorical" programs.

"Revenue limit" funding provides most unrestricted revenues

The core of unrestricted money is "revenue limit" funding. This term came into being in 1972, when state policymakers put a ceiling on districts' general purpose revenues. Lawmakers acted because they anticipated that the California Supreme Court would overturn the property tax-driven system that had produced great variation in per-pupil funding, reflecting variations in tax rates, property wealth levels, and student populations.

The total revenue limit allocation a school district receives each year is based on a specific amount per pupil. The amount is calculated using historical funding levels and a formula set by law. Within each district type—elementary, unified, or high school—the amount per pupil is intended to be relatively equal, though variation exists. A district's total revenue limit allocation is the product of its per-pupil amount multiplied by its average daily attendance (ADA). Revenue limit funding is a combination of state general fund money and local property taxes.

In some districts, the property wealth—whether due to general affluence or an abundance of natural resources relative to the size of its student population—generates enough property tax revenue to exceed the district's revenue limit. These school districts are called excess tax or basic aid districts. The latter term arises from the fact that they get only the basic aid of \$120 per pupil—or a minimum of \$2,400 per district—required by the state constitution and no funding in addition to their local property taxes to meet the revenue limit. They keep any property taxes in excess of their revenue limit, which in some cases represents thousands of dollars per pupil. Because of budget constraints in 2002–03, lawmakers eliminated the distinct payment of \$120 per pupil, saying that the state met its obligation with other state funding from categorical programs. In typical years, there are roughly 60 to 80 basic aid districts, but the number has recently climbed higher than 100 because revenue limits have fallen faster than property tax revenue in some areas.

Categorical programs provide most of the restricted funds

Restricted funding comes mainly through categorical programs. Some of the better-known programs are Special Education and K–3 Class Size Reduction. However, a number of other categorical programs exist. They are dedicated to specific purposes such as child nutrition, after-school programs, and charter school facilities. A significant portion of state general fund allocations are categorical. Traditionally, almost all federal education funds are earmarked for specific purposes as well.

In general, local school agencies must apply for categorical funding or get reimbursed for performing particular services, such as running an after-school program. The amount of categorical revenue that agencies receive is often based on student counts—either the number attending school or, more often, the number with certain demographic characteristics (e.g., low-income) or participating in a given special purpose program.

Although not considered categorical funding, lottery revenues are restricted in that they must be spent for instructional purposes, with a portion dedicated specifically to instructional materials.

State and local tax revenues have declined

The national recession that began in December 2007 hit California particularly hard. The state's unemployment rate is still substantially above the national average, and other economic indicators are showing only slow improvement. In

California, the public sector has been affected disproportionately because of the state's tax structure, which causes government revenue to underperform the economy when it is weak. State general fund revenues decreased 14% between 2007–08 and 2009–10.

Property tax revenues have also fallen. The total assessed value of California properties decreased from \$4.56 trillion in 2008–09 to \$4.45 trillion in 2009–10, and then to \$4.37 trillion in 2010–11. These were the first statewide decreases in assessed value since the Board of Equalization (BOE) began keeping records in 1933. Because property taxes are based on property values, revenues from the tax declined similarly during those two years, but exact figures are not yet available from the BOE. Fortunately for schools, the state's education finance system requires the general fund to backfill any decrease in their property tax revenues. However, that backfilling adds to the strain on the state general fund.

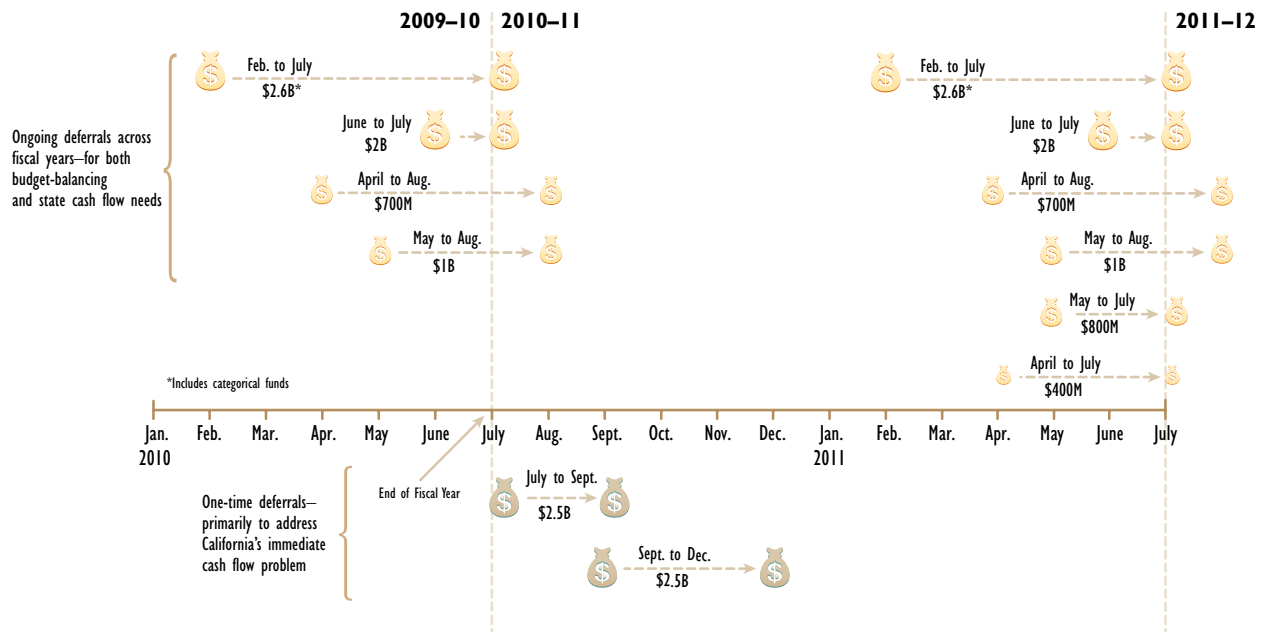
Heavily dependent on the state for their revenues, school districts have had to reduce their spending accordingly. Expenditure data collected by the California Department of Education—which will be reported to the National Center for Education Statistics (NCES)—show that spending by the state's local education agencies averaged \$9,706 per pupil in 2007–08 and \$9,503 in 2008–09—a \$203 or 2.1% drop. Because of NCES reporting rules, those amounts exclude spending on adult education, capital outlay (constructing or modernizing facilities), and debt service. School district expenditures for 2008–09 likely reflect their efforts to mitigate cuts where they could by using some reserve funds as well as the one-time federal stimulus monies.

Although equivalent expenditure data is not yet available for 2009–10, it will likely show a similar or larger drop, based on a reduction in the total revenues allocated to schools that year. Total revenues were \$62.9 billion in 2007–08 and \$60 billion in 2009–10, a decrease of \$2.9 billion or 4.5% in two years.

Funding delays have also created difficulties for local school agencies

In addition to outright cuts, local school agencies have to worry about cash flow much more than in the past. School districts

figure 2 | The state has delayed large payments to local school agencies



DATA: SCHOOL SERVICES OF CALIFORNIA, INC.

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have always had to provide consistent services and meet regular payroll obligations despite receiving their state and local revenues in unequal installments throughout the year. However, the current combination of reductions and state-caused delays in those revenues has made cash management a central concern for school districts.

In recent years, the state has had its own persistent cash flow problems because the timing for when it receives revenues and makes expenditures does not always align, and reserves have not been sufficient to cover the shortfall. One of the ways California has dealt with these problems is to push back the timing of some of its spending, including its allocations to K–12 school districts. Such deferrals—whether within a fiscal year or across fiscal years—can help the state’s cash flow, but they disrupt the timing of school districts’ revenues. As a result, districts have to adjust, sometimes by borrowing funds that must be repaid with interest.

A large portion of K–12 funds are arriving late

Statewide, the deferrals represent about \$7 billion out of total Proposition 98 funding of about \$50 billion.³ Some deferrals began several years ago, and others began just last year. The funding delays have ranged in length from

two to five months. Some have been repeated so many times that they are now regarded as permanent by the education community, while other deferrals have occurred only once.

For 2010–11, policymakers authorized even more funding delays. Two have already occurred—one in July 2010 and one in October. Each amounted to \$2.5 billion. A planned third deferral will move a total of \$1.2 billion in payments from April and May 2011 to July 2011. One effect of these deferrals is that “apportionment” payments, which include revenue limit dollars plus some add-ons, will be spread over 14 months rather than the standard 12-month fiscal year. Figure 2 above depicts the amount, duration, and ongoing/one-time nature of authorized deferrals.

Fiscal tools help districts manage funding delays

School districts have some options for mitigating the cash-flow challenges the state deferrals create.

One way local education agencies react to temporary funding shortfalls is to use “internal borrowing.” This involves temporarily moving funds from one district account to another that has more pressing payment obligations. For example, a district might transfer funds from a designated reserve to the General Fund in order to make payroll.

State law requires that the original accounts be repaid within the same year or in the following year if the borrowing occurs within 120 days of the end of the fiscal year. In addition, local agencies cannot transfer more than 75% of any one account, and the borrowing account must earn enough income during the current fiscal year to repay the amount transferred.

Another option for districts is “external borrowing” from an outside source, such as their local county office of education. Such loans provide discretionary money for the district.

Districts can also issue tax and revenue anticipation notes (TRANs). This is a form of short-term borrowing from the private market. These notes are generally available within, and not across, fiscal years.

Yet another source of external borrowing is the county treasury. State law puts certain restrictions on these loans, however. For example, the amount lent must not exceed 85% of taxes levied on behalf of the school district. Loans also must be made before early April, and the county treasury gets first call on the district’s subsequent revenues until the loan is repaid.

These tools help districts manage changes in the timing of their revenues, but districts must employ a variety of other tactics to deal with changes in the amount of their revenues.



Districts have limited options for coping with reduced funds

In his November speech, Secretary Duncan acknowledged that schools throughout the country face challenges in responding to the recent funding downturns, but he did not recommend a specific course of action. However, he urged local and state decision makers to avoid cuts that would damage school quality and harm students, and instead look for ways to reduce spending without hurting instruction.

The wrong way to increase productivity, Duncan stated, was to do things such as reducing the number of days in the school year, eliminating classes in the arts and foreign languages, and laying off talented young teachers. Duncan's preferred approach includes deferring facilities maintenance and construction, cutting bus routes, lowering the cost of textbooks and health care (perhaps meaning offering less generous insurance benefits), improving energy efficiency of school buildings, reducing central office personnel, and closing underenrolled schools.

Duncan was speaking to a national audience. He was not specifically addressing California, which has for years ranked near the bottom among states in per-pupil spending when regional variation in the cost of employee salaries is accounted for, and whose economy has been especially hurt by the recent recession. In California, many school districts have already implemented the cost-cutting strategies Duncan cited as less harmful to instruction. Thus, the options remaining in most districts here are likely to be limited, particularly given that the bulk of education expenditures are devoted to personnel. California as a whole already has larger schools, larger class sizes, and fewer support and administrative staff than almost any other state.

California's nearly 1,000 school districts must find a mix of strategies that address their particular circumstances, but some common themes run through their decisions. In addition, the state's temporary granting of flexibility on some spending requirements has helped districts manage their budgets, but that flexibility will expire soon. Further, unlike local agencies in most other states,

California's school districts are severely limited in their ability to increase revenues.

Local school agencies spend the bulk of their funds on salaries and benefits

Excluding capital outlay, about 85% of districts' spending in California goes toward employee salaries and benefits.⁴ The remainder of day-to-day spending goes toward such things as utility bills, student transportation, and books and supplies. Local school agencies report their expenditures to the California Department of Education (CDE), and that information is reflected on the Education Data Partnership website, www.ed-data.org. According to Ed-Data, in 2008–09, the most recent year for which spending information is available, on average school districts spent their general fund monies as follows:

50%—Certificated personnel salaries. This includes teachers, librarians, counselors, administrators, and others who must have a credential for their position.

20%—Employee benefits. This category includes health and welfare benefits as well as workers' compensation, retirement contributions, and other benefits—for both certificated and classified personnel.

16%—Classified personnel salaries. This includes instructional assistants, athletics staff, office support staff, and others not required to hold a credential for their job.

10%—Services and other operating expenses. This category covers a wide range of items and activities including professional/consulting services, subcontracts for student transportation, leases and repairs, utility bills, and travel and conferences.

4.5%—Books and supplies. This is also a broad category. The bulk of the spending

here goes toward consumable materials such as copier paper and supplies for food service, janitorial work, and buildings and grounds maintenance. Substantial amounts are also spent on textbooks, library books, and reference materials for students and central office personnel (e.g., dictionaries for students and accounting manuals for school business officials). Finally, it includes “noncapitalized equipment”—items that are relatively permanent but not expensive enough to qualify as capital outlay. Photocopiers and lawn mowers would qualify as noncapitalized equipment.

Multiple factors push schools to routinely spend more each year

Districts face a number of pressures to spend more on their employees and students despite revenue delays and declines. First, employees of school agencies expect—and most collective bargaining agreements require—salary raises based on staff experience and continuing education. The rate at which a particular school district's salary expenses increases depends partly on staff turnover. In these lean times, it is common for districts to lay off the most recently hired and lowest-paid teachers, which can result in an increase in average teacher salaries. On the other hand, if veteran teachers retire and the district replaces them with less experienced ones who are paid less, total salary costs can go down.

Second, school agencies face rising health insurance costs for their employees and retirees. According to the Education Data Partnership website, from 2005–06 to 2008–09 overall spending by California school districts rose by 15%, but spending on health and welfare benefits increased by 24%. This

increase reflects a trend across the entire economy that has continued even during the recent recession. Employer health care costs rose by 7.9% per capita in 2009, while the Consumer Price Index declined by 0.4%, according to Thomson Reuters, which reports on trends in business, science, health care, and other industries.

At the same time, schools face ever-increasing pressure to improve academic achievement, thanks in part to escalating goals under the federal No Child Left Behind Act (NCLB). Beyond that, public opinion and policymaker concerns are increasingly focused on the need to better prepare all students—regardless of their family backgrounds—to graduate from high school prepared to succeed in college or career.

Traditional strategies for improving student achievement—such as smaller class sizes, adding instructional coaches and other resources to improve teacher effectiveness, and providing extra time and interventions for struggling students—are often labor intensive and thus relatively expensive. But local educators are being charged with this task at the same time that their resources are being cut. In short, they are being called on to do more with less. Some schools are trying to meet this challenge with new approaches. For example, a small but growing charter management organization is using data and technology to individualize instruction and improve students' learning in a cost-effective manner.

Districts are making cutbacks but having mixed success at keeping them “away from the classroom”

Despite the factors pushing districts to spend more, school agencies have scaled back in spending, services, and personnel. On Ed-Data, patterns in districts' specific spending reductions emerge.

Spending on books and supplies has decreased

For example, Ed-Data shows that districts decreased their outlay on books and supplies from an average of \$511 per pupil to \$401 between 2007–08 and 2008–09. Districts cut back the most, in absolute dollar terms,

on consumable materials and supplies used in the classroom and on the physical plant.⁵ Spending was also substantially reduced on noncapitalized equipment. Textbooks and school library books were cut as well, though spending on textbooks normally ebbs and flows in relation to adoptions of instructional materials. However, while districts were decreasing their spending, the State Board of Education adopted materials for math in 2007 and for reading language arts in 2008.⁶

A CDE survey reveals that local school agencies have cut spending in many areas

In April 2010, the California Department of Education surveyed districts about their more recent cutbacks. In total, 287 local educational agencies, representing 26% of the state's students, responded to the CDE survey. It is unclear how well the respondents represent the state as a whole in terms of student demographics or financial decisions; but the data point to clear examples of reductions, some of which have an obvious negative impact on instruction while others are less direct. The findings from the survey include the 2009–10 school year and so would not be fully reflected in the state spending averages. Further, every district makes slightly different choices based on local needs and preferences.

Releasing the results in June, the CDE listed 35 areas in which school districts reported making some type of reduction. The top 10 categories, and the percentage of respondents who indicated they have cut in each area, are listed below:

- Building and Grounds: 65% of respondents
- District Administration: 58%
- Instructional Materials: 58%
- Counselors, Nurses, Psychologists: 48%
- Art, Music, and Drama: 48%
- Classified Staff Compensation Reductions: 47%
- Certificated Staff Compensation Reductions: 45%
- K–3 Class Size Reduction: 35%
- Electives: 34%
- Library: 34%

An examination of the list reveals some areas in which few districts have made cuts,

but it is unclear whether that is because funding for those purposes is restricted, districts deem the activity too important to reduce, or there is little left to cut. Examples include services for English learners/multilingual services, school security, and driver education. In addition, California as a whole already has the worst or nearly the worst ratios of counselors, librarians, and district administrators to students in the country.

School agencies are taking advantage of temporary fiscal flexibility

In 2008–09 and 2009–10, state leaders provided districts flexibility with some program and budgetary requirements to help them contend with funding cuts. First and foremost, lawmakers granted districts complete flexibility in how they spend about \$4.5 billion from about 40 categorical programs—after reducing the programs by nearly 20%. The cuts and flexibility are officially in effect through 2012–13. (Policymakers also cut the funding but maintained the requirements of another 11 programs and protected the funding and requirements of about 10 programs. Funding for these programs totaled about \$10 billion.)

In addition, the state loosened the penalties for exceeding the student/teacher ratio called for in the K–3 Class Size Reduction program. That change lasts only through 2011–12. Districts were also able to reduce their reserve for economic uncertainties in 2009–10 and 2010–11 to one-third of the percentage normally required.

Flexibility was granted in other forms as well. Through 2012–13, districts can:

- Shorten their school year from 180 to 175 days without penalty in order to reduce their labor and physical plant costs.
- Reduce spending on routine and deferred maintenance of facilities.
- Use the proceeds from sales of surplus property on one-time purchases for general purposes. (Normally they can only be used for facilities.)
- Forego buying the most recent instructional materials. Districts must still provide standards-aligned materials

for their students, but the materials may be from a prior adoption by the State Board of Education, or in the case of high schools, the local district.⁷

Districts capitalized on categorical program flexibility

The LAO, which has advocated for categorical flexibility for several years now, asked districts how they were using the newfound flexibility in the survey described previously. The LAO's data indicate that the increased flexibility is helping districts manage their budgets. Two-thirds of responding districts reported that the change has made developing and agreeing on a strategic budget plan easier, and three-quarters stated that it also made it easier to implement strategic plans.

Few districts last year exercised the option to shorten the school year, but most took advantage of categorical flexibility, moving funds away from the newly flexible categorical programs and into core K–12 instruction. In particular, districts tended to shift funds away from programs such as adult education, deferred maintenance, professional development, art and music, gifted education, supplemental instruction, and counseling. In contrast, about half of responding districts reported making no changes and shifting no funds away from Community Day Schools (district-run programs for students who have been expelled), a program for teenage mothers, and an alternative pathway program for teachers.

In the current year, it is reasonable to expect that districts will sustain these changes and perhaps expand them. Less clear is what will happen if the spending requirements accompanying the funding go back into effect in two years, as the law now requires. Some school business officials are deeply concerned about losing the flexibility, seeing it as crucial to fiscal management in a time of funding cuts and delays. In contrast, critics of categorical flexibility express concern over districts' shifting funds from some programs meant to help disadvantaged students and their families.

Relaxed penalties in the K–3 Class Size Reduction program have led to larger class sizes in early grades

Policymakers have substantially relaxed the penalties for exceeding the 20-to-1 student-teacher ratio originally called for in the K–3

Class Size Reduction (CSR) program. This has allowed districts to raise K–3 class sizes above 20-to-1, though more funding is deducted as classes get larger. Classes with more than 25 students generate 70% of the funding they would have yielded with class sizes of 20.

A hypothetical example illustrates how this policy works. If a school had three classes of 20, it would get the CSR per-pupil funding rate for 60 pupils. If the school then lost one of those three teachers and distributed her students among the two remaining teachers, leaving two classes of 30 pupils, the school would receive 70% of the CSR funding for 40 pupils.

That would represent a substantial loss of CSR incentive funding, but the school would not be implementing CSR as intended or incurring the cost for that third teacher. The funding could be used for a variety of purposes, including perhaps hiring an instructional aide to help the two teachers.

In addition, as of Jan. 31, 2009, policymakers placed a cap on the number of classes in a district that can qualify for CSR funding. Further, state funding may not cover the entire cost of implementing the program if the teachers involved command a relatively high salary due to their education level and experience. Thus, the incentive to maintain K–3 student-teacher ratios at or below 20-to-1 has been dampened considerably.

These factors have led to a substantial reduction in CSR participation. A September 2010 survey of the state's 30 largest school districts by California Watch, an investigative journalism organization, showed that all will have classes with more than 20 students in some or all of grades K–3 this year. Some of those 30 districts will keep classes relatively small, with average class sizes in the low 20s. However, half of the districts surveyed will enroll at least 28 students in some or all of their K–3 classes, and nine districts will have at least 30 students.

As a result of lower participation in the program, some of the funding the state set aside for full implementation has not been claimed. The state reclaimed those dollars—amounting to several hundred million—during the past two years to help address the budget deficit.

As noted above, current law will remove the increased flexibility after 2011–12. Absent legislative action, school districts will have to choose between reinstating the relatively costly program by increasing their K–3 staffing or foregoing the funding they are now receiving—\$1,067 per pupil for a full day or \$533 per pupil for a half day.

Districts are trying to increase their revenues

California's school districts' options for increasing their revenues are more limited than in most other states. With no direct taxing authority, they have to get community support for private donations, parcel taxes, or the seldom-used sales tax add-on. In some communities, these revenues comprise substantial per-pupil amounts. Statewide, they make up a small but growing portion of funding. Ed-Data reports that local miscellaneous revenues rose from \$147 per pupil in 2006–07 to \$187 in 2008–09. Many districts are trying to generate more funds in a variety of ways.

Charging fees for certain activities and materials is under legal challenge

One way that districts make ends meet is by charging students fees for some activities or materials. Families in California have grown accustomed to paying fees to support school-related activities such as home-to-school transportation. However, it appears that several schools throughout the state have begun charging fees for course-related expenses, a practice that has come under legal challenge.

In September 2010, the American Civil Liberties Union of Southern California (ACLU) filed a class action lawsuit in Los Angeles Superior Court to force the state to stop school districts from charging families for instruction-related expenses. The suit grew out of complaints from parents and other instances of schools' charging fees that the ACLU discovered by reviewing the websites of a sample of public high schools. For example, the ACLU says it found that schools were requiring students to purchase mandatory academic textbooks and workbooks, buy school-issued P.E. uniforms, and pay lab fees for science classes and material fees for fine arts courses.

Voters continue to support school facilities bonds when given the chance

Communities throughout California have been relatively successful in raising funds for school facilities through the passage of their own general obligation bonds, but often they depend on state matching funds to help finance their capital projects. Those state funds are expected to run out by the end of 2010, and policymakers did not place a new statewide bond on the November 2010 ballot. That means districts may have to raise the full amount needed for projects on their own or wait until voters approve a replenishment of state funds before proceeding with projects.

No statewide ballot measure for education facilities in 2010

In spring 2010, state legislators considered, but ultimately did not pass, a bill that would have put

on the November 2010 ballot a \$6.1 billion bond measure for constructing and modernizing K-12 and higher education facilities. Three-quarters of the funds would have gone to K-12 schools, including \$50 million for preschool facilities to be located on elementary and secondary school sites. The California Community Colleges would have received \$800 million, and the University of California and California State University would have received \$350 million each.

According to School Services of California, a technical assistance and lobbying firm in Sacramento, the lack of a statewide bond measure is a disappointment to the education community because state bond funds available to K-12 schools are expected to be depleted by the end of 2010. In addition, all of the

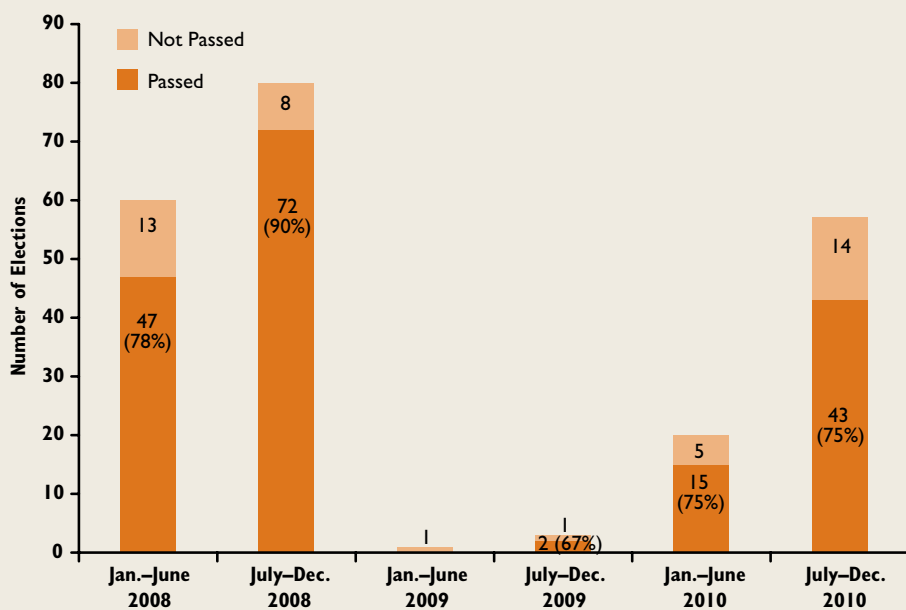
higher education facilities bond monies from the last statewide bond (Proposition 1D in 2006) have already been apportioned. Further, construction firms have been offering more affordable bids on jobs during the recent economic slowdown, so having bond funds available would have allowed education agencies to get more for their dollar.

Several concerns on the part of legislators stood in the way of passage. Many argued against adding to the state's debt service obligations in a time of severe deficits. In addition, funding needed to run a bond campaign—as much as \$9 million—was in doubt. Further, early polling revealed that a majority of respondents would support a bond, but the majority was not large enough to give bond proponents confidence that a measure would ultimately pass in November.

The earliest that the next kindergarten-university facilities bond measure can now be expected is in 2012.

Approval of local school-facilities bond measures has been relatively high during the recent economic downturn

General Obligation Bond Measure Passage Rate: Jan. 2008–Dec. 2010



Local communities have increased the passage rate of local school facilities bond measures in recent years

Districts can issue general obligation bonds to build or renovate facilities with the approval of two-thirds of local voters or just 55% if they meet specific conditions related to the election and public oversight. They levy a tax based on property values to pay back those bonds. Districts gained the ability to pass bond measures with 55% voter approval in 2001. Since then, 79% of the 698 G.O. bond elections attempted have passed.

Local communities have in recent years been even more likely to approve G.O. bonds. From January 2008 through December 2010, local voters approved 81% of the 221 G.O. bond measures attempted, despite only a 75% passage rate in the November 2010 election.

DATA: EDSOURCE, SCHOOL SERVICES OF CALIFORNIA, INC., AND LEAGUE OF WOMEN VOTERS OF CALIFORNIA-SMART VOTER

EDSOURCE 12/10

Plaintiffs argue that such fees violate the state constitution's guarantee of a free education, and the suit names the state and Gov. Arnold Schwarzenegger as defendants. The ACLU bases its case in part on a state Supreme Court ruling in a 1984 case, *Hartzell*

v. Connell. As the ACLU argues, in *Hartzell* the court said that all activities that are "educational" in character must be free, whether curricular or extracurricular and whether they are worth credit or not. In addition, the ACLU relies on the court's ruling that even

fees that could be offset with a waiver for those unable to afford them are not constitutional. The ruling explicitly confirmed several prior California Legislative Counsel and Department of Education interpretations of California Administrative Code provisions

prohibiting fees for extracurricular athletics, uniforms, band instruments, and club dues.⁸

School agencies are trying to increase attendance rates

Because a major portion of districts' funding is tied to the number of students attending school each day, some districts are trying to boost attendance rates to generate more revenue. To do this, districts are hiring consultants, analyzing data, engaging parents, and creating extra incentives for students to attend school. One consulting firm reported helping districts increase attendance rates by 0.25% to 1%. That may appear to be a small amount, but at the low end of that range, a district with 10,000 students would generate enough additional revenue to prevent the layoff of a vice principal or two new teachers for a year.

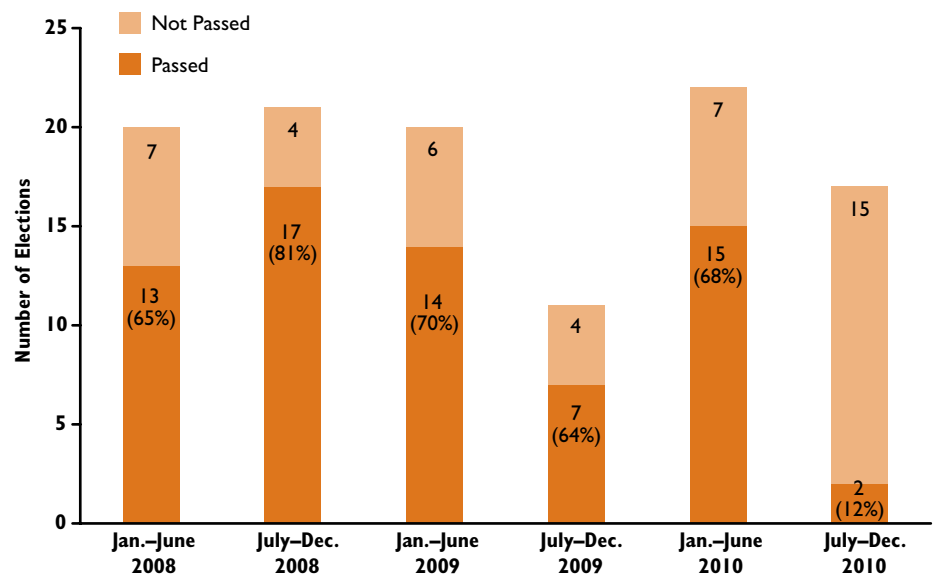
Districts can use revenues from parcel tax elections for operating expenses

Communities can raise funds for schools by approving with a two-thirds vote a tax on parcels of land. Most parcel taxes assess a flat fee on each parcel of property, no matter what its size or value. These taxes generally remain in effect for three to 10 years, but the timeframe can be longer, even permanent.

School districts occasionally use parcel tax proceeds for facilities, but in the vast majority of cases, the money is used for operating expenses. Districts must declare the specific purposes of the parcel tax proceeds before the election. In recent years, the stated purposes have explicitly included reducing the impact of state budget cuts. Examples of other uses include keeping class sizes relatively small, providing a range of science classes, bolstering library collections, modernizing technology, and maintaining music and art classes. Each district that passes a parcel tax generally garners a few hundred dollars per pupil annually.

Of the 542 parcel tax elections held from 1983 through November 2010, 289 (53%) passed. However, in recent years, the passage rate has generally been higher than that. Since January 2008, communities approved 68 of 111 parcel tax measures, a 61% passage rate. Figure 3 shows parcel tax election results during the past three years, broken

figure 3 | Local communities were relatively likely to pass parcel taxes in the past three years—until November 2010



DATA: SCHOOL SERVICES OF CALIFORNIA, INC.; AND LEAGUE OF WOMEN VOTERS OF CALIFORNIA-SMART VOTER EdSource 12/10

down into six-month periods. Of note is the relatively high approval rate in July–December 2008. All of the elections in that six-month span occurred in November 2008, just a few weeks after many voters had seen their retirement plans nosedive in value. In other words, many residents agreed to raise their own taxes in support of local schools despite a recent blow to their personal savings.

Also of note, however, is the dramatically low passage rate in the most recent election. A generally anti-tax electorate in November 2010 approved only two of 17 parcel tax measures for K–12 schools.

The 68 parcel tax measures that passed during the past three years affect a fairly small proportion of the state's students, as measured by average daily attendance (ADA). For example, the districts that passed parcel tax measures in 2008–09—a relative high point in terms of parcel tax measures attempted and approved—represented about 228,000 students or 5% of the statewide ADA. For the three-year period, districts that passed parcel taxes were smaller on average than ones where measures failed, with an average ADA of 8,168 students in the successful districts versus an average of 27,754 students in the unsuccessful districts. Those that

passed parcel taxes were roughly proportionate to the state distribution of elementary, high school, and unified districts, but they were located predominantly in the San Francisco Bay Area. In November 2010, the only two successful parcel tax elections occurred in Alameda County, which is in the Bay Area. However, eight other parcel tax elections in the Bay Area failed.

Some would like to see a 55% voter threshold option added for parcel taxes, similar to an option created for general obligation bond measures for school facilities. Despite multiple attempts in the Legislature and a 2010 signature gathering effort for a ballot initiative, this policy change has not been put to a vote on the statewide ballot. Thus, passing a parcel tax still requires a two-thirds vote.

Among the parcel tax elections conducted from January 2008 through December 2010, 86% achieved a 55%+ majority (as opposed to 61% that achieved the current two-thirds vote requirement). If the threshold were lowered to 55% as a matter of general policy, more districts would likely try to pass parcel taxes, as happened with school facilities bond measures when a 55% approval option was provided beginning in 2001. (See the box on page 8.)



Federal stimulus funds have helped, but many districts still face severe funding difficulties

The recently granted fiscal and programmatic flexibility along with augmented local funding sources in some parts of the state have helped districts manage their budgets during the revenue downturn. Perhaps more significant than those measures has been the injection of temporary federal funding. In contrast to parcel tax revenues, these federal funds have benefitted most districts across the state, with a portion of the funds targeting high-needs students.

Money from the State Fiscal Stabilization Fund has prevented many teacher layoffs

The American Recovery and Reinvestment Act (or federal stimulus) enacted in February 2009 provided about \$6 billion in one-time monies to California's K–12 schools, spread over three years. About half of that came through the State Fiscal Stabilization Fund (SFSF). The SFSF program was designed to help states shore up education funding in response to revenue drop-offs in 2008 and 2009. Local agencies have been able to use the funds for a wide variety of educational purposes. Large stimulus amounts were also added to existing funding streams—\$1.5 billion in additional Title I funding to support the education of students from low-income families, and \$1.3 billion in additional funding to support Special Education. All of these funds must be spent by the end of September 2011.

The 2009 survey by the LAO indicated that few districts spent much of their stimulus funding in 2008–09. Most respondents planned to use a significant percentage of the money in 2009–10. In fact, roughly 40% of districts planned to spend the bulk of their funds that year. However, a sizable number of the respondents had decided to spread the money over 2009–10 and 2010–11.

Although districts have varied somewhat in the timing of their spending, they are similar in how they are using the funds. On average, districts reported spending:

- 62% of their stimulus funds to prevent teacher layoffs;
- 19% to backfill reductions to categorical programs;
- 12% to make one-time investments;

- 7% to fulfill miscellaneous other purposes; and
- 1% to give raises to teachers.

The subsequent "Education Jobs" bill has also saved positions

In August 2010, federal policymakers enacted the Education Jobs and Medicaid Assistance Act, which provided states with an additional \$10 billion to save or create PreK–12 education jobs. The funds were distributed to states based on total population and school-age population.

California received about \$1.2 billion through the program. The funding was distributed to California's local education agencies (LEAs) proportionally on the basis of total revenue limit funding; however, it is restricted funding and must be spent in 2010–11 or 2011–12.⁹ LEAs may not use the money for anything other than job creation or retention, and must report quarterly and annually on how they spend the money and the number of jobs created or retained. Anecdotal evidence suggests that the funds have generally been used to rescind furloughs and prevent layoffs.

Despite substantial federal aid, the number of California districts with qualified or negative certifications continues to grow

At least twice per year, local education agencies self-certify their ability to meet their

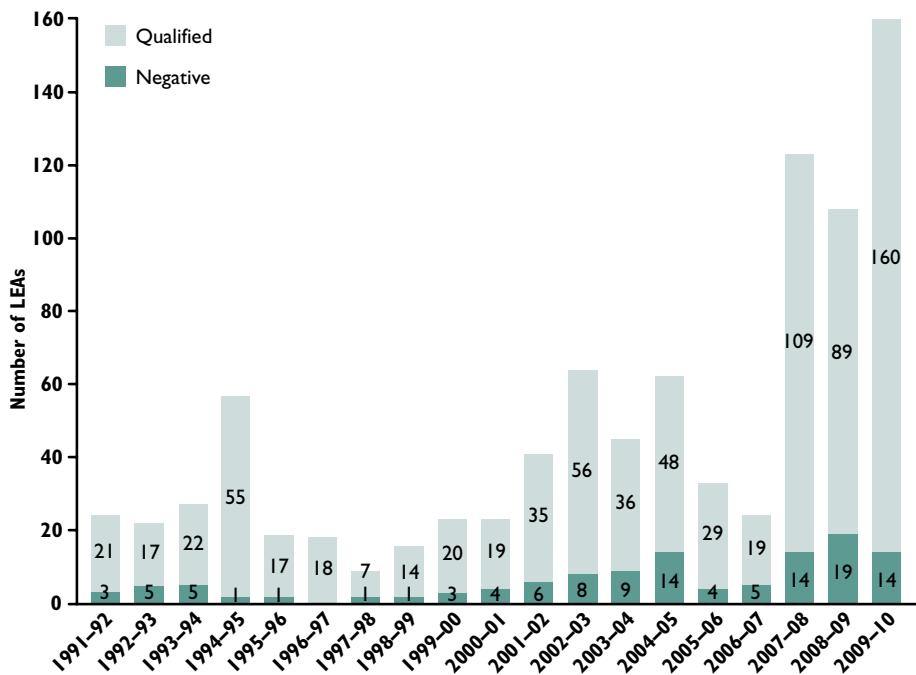
financial obligations and submit that certification to their overseeing agency for approval. Districts submit the documents to county offices of education, and county offices submit theirs to the CDE. The three possible certifications include:

- *Positive*: the LEA will meet its obligations for the current fiscal year and two subsequent fiscal years;
- *Qualified*: the LEA may not be able to meet its obligations for the current fiscal year or two subsequent fiscal years; and
- *Negative*: the LEA will be unable to meet its obligations for the remainder of the fiscal year or the subsequent fiscal year.

Districts' financial statements reveal that a record number of California school districts are struggling to bring their expenditures and revenues into balance. Because districts are largely dependent on the state for their revenues, the cuts in state funding during the past several years have clearly taken their toll. Figure 4 shows that 174 out of 1,077 local education agencies—which includes school districts, county offices of education, and joint powers agencies—had qualified or negative certifications in 2009–10. The vast majority of the 174 LEAs with such certifications were school districts, but two were county offices of education and one was a joint powers agency.

Districts' financial statements reveal that a record number of California school districts are struggling to bring their expenditures and revenues into balance.

figure 4 | The number of local education agencies with qualified or negative certifications in the second interim reporting period has grown



Notes: Districts and other local education agencies are required to file two interim reports each fiscal year on the status of their fiscal health. The first report covers the period ending Oct. 31, and the second report (shown in the chart above) covers the period ending Jan. 31.

All “negative” totals consist solely of school districts. The “qualified” totals are also mostly school districts, but they do include one county office of education (COE) in 2005-06 and 2006-07, two COEs in 2007-08, two COEs and one Regional Occupational Program in 2008-09, and two COEs and one joint powers agency in 2009-10.

DATA: CALIFORNIA DEPARTMENT OF EDUCATION (CDE)

EdSource 12/10

For districts that have already reduced their reserves and staffing levels drastically in recent years, few options remain and multiyear budget planning is a grim exercise. Already, districts have taken previously unthinkable actions to deal with fiscal difficulties.

When an agency receives a qualified or negative certification, it loses some of its financial autonomy. For example, a qualified rating for a district prompts the local county office of education to assign it a fiscal adviser. In addition, that district will need county office approval before borrowing funds through specific nonvoter-approved methods such as Tax Revenue Anticipation Notes or TRANS. It will also have additional

reporting obligations, including a Third Interim Report due June 1.

Often, the district will work with the Fiscal Crisis and Management Assistance Team (FCMAT) to evaluate its financial position and develop a plan for improvement. FCMAT is overseen by an advisory board made up of county office and school district superintendents, plus an administrator from the CDE. It has regional teams

of experts who can act as budget advisers when needed as part of county office budget reviews.

School agencies face worse times ahead

There is good reason to anticipate that more school agencies could soon find themselves in financial trouble. A combination of factors contributes to this.

Federal stimulus funds, though quite welcome to local school agencies, are one-time in nature and will soon be exhausted. The depletion of the larger pot of money (SFSF), though somewhat mitigated by the Education Jobs funding, will likely create a severe drop-off in local budgets as districts move from 2010-11 to 2011-12.

And economists’ projections indicate that state and local funding sources will almost certainly not backfill that hole in the near future because of the slow economic recovery described earlier.

Policy decisions by state leaders and the electorate will also reduce, or constrain increases in, state revenues. For example, temporary increases in the personal income and sales tax rates will soon expire, and some tax benefits for corporations will continue or resume. In addition, Proposition 26, passed in November 2010, requires a two-thirds majority vote in the Legislature to pass many fees and levies that could previously be enacted by a simple majority vote. And by approving Proposition 22 in November 2010, state voters prohibited the state from borrowing from local governments, which the state has relied on in recent years.

As a result, for many districts the need to make cuts—likely including layoffs—will continue. For districts that have already reduced their reserves and staffing levels drastically in recent years, few options remain and multiyear budget planning is a grim exercise. Already, districts have taken previously unthinkable actions to deal with fiscal difficulties. For example, some districts have cut the school year or furloughed their staffs. Others have converted several schools to charter schools in the hope of benefitting from regulatory freedom and, in some cases, additional funding.



Obama administration programs represent seed money for reforms it hopes will be game-changing

When Congress passed the federal stimulus package, it granted President Barack Obama's administration considerable discretion in the allocation of funding. The administration used its authority to create incentives for states to adopt policies and practices that align with Duncan's goals of improving educational productivity. They fall into four reform areas—increasing the effectiveness of teachers and principals, creating rigorous assessments and standards across states, turning around the lowest-performing schools, and building statewide longitudinal data systems.

To date, the most direct impacts for California districts relate to turning around the lowest-performing schools. But the federal impact has been felt in other ways too: some school districts have received grants to develop promising innovations aimed at raising student achievement.

The School Improvement Grant program is providing generous funding and encouraging more aggressive intervention in the persistently lowest-achieving schools

One program that the Obama administration expanded and modified is the federal School Improvement Grant program. SIG provides substantial resources to districts that participate in Title I and have schools that are struggling to make progress on state tests.

The modified SIG focuses resources more intensely on the persistently lowest-achieving schools than did the prior version of the program. Specifically, interventions are now targeted at the lowest-achieving 5% of Title I schools that have also repeatedly missed academic performance targets. It also places more emphasis on middle and high schools, provides more resources for each participating school, calls for more significant school-level changes, and builds in more accountability measures.

California has recently received \$416 million in SIG funding. To participate, districts in this state and elsewhere must commit to implementing one of four intervention approaches in their participating schools:

1. *Turnaround*, which includes replacing the principal and at least 50% of school staff,

adopting a new governance structure, and implementing a new or revised instructional program. New governance structures could include, for example, appointing someone to lead turnaround efforts in the district or giving schools more freedom in exchange for more accountability. Districts also have to implement new teacher recruitment, professional development, and school calendar approaches as well as commit to continuous use of student data to improve instruction.

2. *Restart*, which involves closing a school and reopening it under the management of a charter school operator.
3. *Closure*, with students reassigned to other schools in the district.
4. *Transformation*, which includes enhancing teacher and principal effectiveness; reforming instructional practices; extending learning time (and building in more time for teacher collaboration and planning as well as more opportunities for family involvement); and providing more operational flexibility and ongoing technical assistance to the school.

Participating schools can adopt other practices/programs as well: for example, opportunities for high school students to do college-level work, credit-recovery programs, smaller learning communities, and partnering with community organizations to address students' nonacademic needs.

Participating districts receive funding for district-level operations (based largely on the number of schools facing interventions) and for school-level activities. Districts can get

\$50,000–\$500,000 per year per participating school, which includes money for central office work. In addition, for school-level activities, districts receive at least \$500,000 for each participating school for each of three years. However, school-level funding in the second and third years is contingent on academic progress. (Districts receive only \$50,000 for relocating students or other expenses associated with closing a school.)

In March 2009, the State Board of Education identified 188 schools as eligible for participation based on their graduation rate and/or the percentage of students scoring proficient or above on California Standards Tests in English and math in 2007 through 2009. Of those, 113 schools applied. In August, the State Board of Education selected 92 schools to receive a total of \$415.8 million. The 92 chosen schools include 44 elementary, 22 middle, and 26 high schools. Most are implementing the transformation model:

- 72 schools are using the transformation model;
- 32 schools are using the turnaround model;
- 7 are restarting; and
- 2 are closing.

Some stakeholders object to this program, stating that its approach lacks a foundation in the research on school reform. Others have complained that California's particular implementation of the program has been deeply flawed. These critics assert that the state's planning and district-selection process lacked transparency, adequate public

notice, and realistic timelines for schools to create sound applications. In addition, critics found the school-selection process problematic in that a specified level of progress could exempt a school from being chosen, which meant some schools in the second and third deciles on the state's Academic Performance Index (API) were selected in place of lower-scoring schools in the first decile (lowest 10%). Finally, some central office grant amounts seem excessive, as do some school-level grants. For example, one school with 131 students is receiving \$10,178 per student per year, while some other schools are getting less than \$1,000 per student per year. The median grant is about \$1,800 per student.

Although participating schools may not have liked receiving the “persistently lowest-achieving” label and found the implementation frustrating at times, they are generally excited about the influx of funding and plan to use it in a variety of ways. Hillside Elementary in Alameda County, for example, is receiving \$1,086 per student for each of three years. The school is implementing a transformation, offering more after-school programs, hiring three support teachers, and paying the existing teachers \$1,000 stipends to boost retention and to pay for visits to students' homes.

Another school that is using the transformation model is Semitropic School in Kern County, which serves 234 students in kindergarten–8th grade. Semitropic is using its \$5,514 per pupil to train teachers, buy new library books, replace a very old computer lab, hold extra sessions on Saturdays, and extend the school day to offer tutoring to all students.

The state expects to get funding to add some additional schools to the program in 2010–11. If this occurs, it is not clear whether the state will choose from the existing list of eligible schools or create a new list. State officials have also not indicated whether they will modify the selection process to address critics' concerns.

What remains to be seen for the schools participating currently is what will happen to them when they transition out of SIG. The schools know that the money is one-time in nature. But do they have plans in place for

California's Quality Education Investment Act takes another approach to school turnarounds

The Quality Investment Education Act (QEIA) program is the result of a 2006 legal settlement involving Proposition 98 funding. The settlement originally called for payment of about \$2.7 billion over seven years to selected K-12 schools, beginning in 2007–08. QEIA distributes about \$400 million per year among 488 schools that were in the bottom two deciles (lowest 20%) of the 2006–07 Academic Performance Index (API).

Participating schools receive \$500 per student in grades K-3, \$900 per student in grades 4-8, and \$1,000 for each student in grades 9-12. This means that a typical 650-student, K-6 elementary school eligible for the program would receive about \$436,000 per year.

In return for the funds, schools must meet annual benchmarks for ratios of pupils to teachers and counselors, teacher qualifications and experience, and API growth targets. QEIA tends to maintain a participating school's governance structure and most staff, in contrast to most options under the modified School Improvement Grant (SIG) program.

Continuation of a school's QEIA funding after three years is contingent on making progress in the areas cited above. The current school year is the third year of participation for most schools in the program, so 2010–11 is a key year for the QEIA. A recent study of the program commissioned by the California Teachers Association (the plaintiffs in the case that ultimately produced the QEIA) found that the average participating school increased its API score by a greater margin than the average similar school not participating in the program.

Still, there will likely be some QEIA schools that do not meet all of their required benchmarks. Before the state cuts funding for such schools, the superintendent of public instruction must provide advance notice to allow the governing district a reasonable amount of time to make staff and other adjustments. The state must also cover the cost of such adjustments.

Although participating schools may not have liked receiving the “persistently lowest-achieving” label and found the implementation frustrating at times, they are generally excited about the influx of funding from the federal School Improvement Grant program.

what to do when the funds are exhausted? Will they be able to sustain any improvements they make when they have fewer resources?

The Investing in Innovation (“i3”) program is providing more than \$76 million for California-based organizations to expand new approaches

As part of the stimulus, federal officials provided \$650 million nationally for an entirely new program called Investing in Innovation (or “i3”). The purpose of i3 is

to develop and expand practices that show promise or have clearly demonstrated positive results in the following areas: improving student achievement, narrowing achievement gaps, increasing high school graduation rates, or increasing college enrollment and completion rates. Applicants could include 1) LEAs, and 2) nonprofit organizations in partnership with LEAs or a consortium of schools.

The i3 program provides three types of grants that differentiate between new ideas worthy of further exploration and proven

figure 5 | Eight California-based organizations have won Investing in Innovation (“i3”) grants

Project Title	Organization Name	Amount Requested and Grant Length	Project Description
Development Grants			
Integrating English Language Development and Science: A Professional Development Approach	Exploratorium	\$2,984,628 for five years (\$600,000 per year)	Refine and expand a professional development program for teachers that integrates science instruction and English Language Development techniques.
Districtwide program development, expansion, and evaluation of the Education Pilot Project (EPP) for foster youth, and preparation for statewide scale-up	Advancement Through Opportunity and Knowledge	\$3,649,580 for four years (\$912,000 per year)	Expand, evaluate, and prepare for statewide scale-up of the Education Pilot Project, a service model designed to improve the academic outcomes and college enrollment of foster youth.
L.A.’s Bold Competition—Turning Around and Operating Its Low-Performing Schools	Los Angeles Unified School District	\$4,880,392 for three years (\$1.6 million per year)	Enhance the open competition for operators of schools in need of a turnaround in order to create a portfolio of high-performing schools. To do this, the project will enhance a school-choice selection process, support the implementation of school improvement plans, and implement accountability and continuous improvement measures.
STEM* Learning Opportunities Providing Equity	California Education Round Table Intersegmental Coordinating Committee	\$4,982,527 for five years (\$1 million per year)	Further develop a project-based, STEM-focused pre-algebra and algebra curriculum, college readiness curriculum, and teacher reflective collaborative coaching model to promote high achievement in math, especially among economically disadvantaged, English learner, and rural students.
CollegeYes	Alliance for College-Ready Public Schools	\$4,989,786 for five years (\$1 million per year)	Promote proficiency on academic content standards, as well as college matriculation and graduation, through professional development for teachers and the development of a virtual/real learning community.
Write to Learn!	Corona-Norco Unified School District	\$5,000,000 for five years (\$1 million per year)	Add specific components—technology, professional development, and curriculum coaching—to the writing program to provide more immediate information and support to high-needs students.
Validation Grant			
Scaling Up Content-Area Academic Literacy in High School English Language Arts, Science, and History Classes for High-Needs Students	WestEd	\$18,166,181 for five years (\$3.6 million per year)	Expand the Reading Apprenticeship model of academic literacy instruction to increase adolescents’ literacy engagement, academic identity, and achievement.
Scale-Up Grant			
Success as the Norm: Scaling-Up KIPP’s Effective Leadership Development Model	KIPP Foundation	\$50,000,000 for five years (\$10 million per year)	Scale up KIPP’s leadership development model to increase dramatically the number of highly effective principals prepared to lead schools that place high-need urban and rural PreK–high school students on a path to success in college.

* STEM stands for science, technology, engineering, and mathematics.

reforms that need support in order to be expanded. The grants are for between three and five years and require a 20% matching grant from a foundation, donor, business, or service provider. The U.S. Department of Education (ED) describes the three types of grants roughly as follows:

- **Development** grants provide funding to support high-potential and relatively untested practices, strategies, or programs whose efficacy in addressing the areas listed above should be systematically studied. Successful applicants had to provide evidence that their

proposed program, or one similar to it, had been attempted previously, albeit on a limited scale or in a limited setting, and had yielded promising results that suggested that more formal and systematic study would be warranted. The maximum amount for each grant was \$5 million.

- **Validation** grants support programs that show promise but for which there is currently only moderate evidence that they will have a statistically significant effect. With further study, the effect of the program may be substantial and important. Each grant could be as high as \$30 million.

- **Scale-up** grants facilitate substantial expansion of programs for which there is strong evidence that the proposed practice, strategy, or program will have a statistically significant effect in one or more of the areas listed above. The maximum amount for each grant was \$50 million.

Based on a peer-review process, the ED awarded 49 i3 grants nationwide—30 development, 15 validation, and four scale-up grants. Many applicants did not request the maximum award amount.

Eight California-based organizations secured i3 grants, including six development, one validation, and one scale-up grant. (See Figure 5 on page 14.) Together, the state's grant winners will receive about \$19.7 million per year. They collectively represent several themes found in recent federal policy initiatives—for example, helping economically disadvantaged students and English learners close the achievement gap, creating a college-going culture in K–12 schools, using technology to facilitate learning, and improving student achievement in science, technology, engineering, and mathematics (STEM). Figure 5 describes the details of the California-based projects.

The Obama administration has requested an additional \$500 million for this program in fiscal year 2011 (Oct. 1, 2010–Sept. 30, 2011) for revised and additional applications, but the federal budget for the fiscal year 2011 has not yet been settled.

Together, the state's Investing in Innovation grant winners will receive about \$19.7 million per year. They collectively represent several themes found in recent federal policy initiatives.

California has received funding through other federal programs

The federal government provides financial support targeted to several reform initiatives. Some programs received significant but temporary boosts through the federal stimulus package. Although the California Department of Education may be involved in distributing funding, the grantees are generally school districts and colleges/universities. The following programs have provided substantial funding to local entities in recent years:

- **Enhancing Education Through Technology**—provides grants to states and districts to improve student academic achievement through technology use, support technological literacy, and integrate technology with teacher training and curriculum development. The program's ongoing funding stream provided California with \$29.1 million in 2009 and about \$11.5 million in 2010. The stimulus added a temporary boost to the program, giving California an additional \$71.6 million.

- **High School Graduation Initiative**—supports a number of strategies to increase the graduation rate in high schools with high dropout rates and their feeder middle schools. In September 2010, three California local education agencies—Los Angeles Unified, Pasadena Unified, and Riverside County Office of Education—were awarded a total of \$4.5 million.

- **Smaller Learning Communities**—provides large comprehensive high schools with grants to create smaller, personalized environments and support common planning time for teachers. The federal Department of Education announced in September 2010 that 28 districts would receive grants totaling \$52.2 million, of which about \$8.9 million would go to six districts in California—Oakland Unified, Woodland Joint Unified, Baldwin Park Unified, Long Beach Unified, Antioch Unified, and Bluff Joint Union.

- **State Longitudinal Data Systems**—For federal support of California's data system, see the box on page 17.)

- **Teacher Incentive Fund**—supports efforts to develop performance-based teacher and principal compensation systems in high-needs schools. In September 2010, four groups of California schools, including two districts and two consortia of charter schools, were awarded grants totaling about \$30 million over five years. About 70 schools in total will be participating.

- **Teacher Quality Partnership Program**—provides five-year grants for partnerships of higher education institutions and high-needs schools and districts to create model teacher preparation programs. In California, six higher education institutions won grants totaling about \$53 million beginning in 2009, and one institution received a grant of \$8.4 million beginning in 2010.



In the short term, California schools can expect some new policy requirements

In September 2010, economists with UCLA's Anderson Forecast predicted that the state and national economies—as measured by the unemployment rate and growth in personal income—would grow slowly through 2011 and not resume healthy growth rates until late 2012. The Anderson economists expect the state's unemployment rate to fall from 12.6% in September 2010 to 10% in 2012, and they forecast that annual growth in personal income will rise from 0.6% to 4.1% during that same period.

In its annual Fiscal Outlook, released in November 2010, the Legislative Analyst's Office also offered a forecast that the immediate future will be bleak. The LAO projected that fiscal years 2010–11 and 2011–12 will end with a combined general fund deficit of \$25.4 billion unless corrective action is taken. Furthermore, the LAO forecasts that the state's current direction will lead to roughly \$20 billion deficits annually through 2015–16. For education specifically, the LAO is predicting that the Proposition 98 minimum guarantee, which affects K–12 schools and community colleges, will drop by \$2 billion in 2011–12. Thus, state revenues for schools will likely continue to decline at the same time that federal stimulus funds will be exhausted.

Policy makers' actions will add to districts' workload

These pessimistic forecasts followed shortly after the 2010 legislative session, during which lawmakers also added a few additional responsibilities to districts' plates.

The Open Enrollment Act could increase interdistrict transfers

Some stakeholders believe that allowing families to choose schools outside of their neighborhood creates market-like dynamics in public education. Families become like customers shopping for the school that best fits their needs and wants. Supporters of this view say it creates pressure for schools to improve so they can attract students and the funding that comes with them. Critics of school-choice programs point to mixed

research findings on the effects of such programs on student achievement.

In early 2010, California policymakers enacted legislation making it easier for students in low-scoring schools to transfer to schools outside of their normal attendance area. The legislation, Senate Bill X54, is called the Open Enrollment Act.¹⁰ The act required the CDE to create a list of the state's 1,000 lowest-performing schools and made schools on that list inform parents that they may choose another school for their child, including one outside their district of residence. The receiving district can add the new students to its average daily attendance (ADA) count and thus receive funding for them.

The act has the potential to affect all districts, not just those with schools on the list. Acceptance of students wishing to transfer is not automatic, however. Districts may adopt policies on accepting and rejecting applications for enrollment that take into account school capacity and financial impacts. And to the extent that a district has more students applying to its schools than it has room for, it must use the following priorities in accepting students:

1. Siblings of children already attending the school for which a student is applying;
2. Students transferring from a school in the bottom 10% (Decile 1) of the Academic Performance Index;
3. Students selected by lottery.

One controversial aspect of the program has been the selection of the so-called lowest-performing schools. If the 2010 selection process had been based on API scores alone, 938 of the 1,000 schools would have come from

Decile 1, with the remainder coming from Decile 2. However, the legislation included a rule saying no more than 10% of a district's schools can be placed on the list. That rule was intended to promote geographic diversity among selected schools. In addition, there was a concern that if many students exercised the choice option, and the 10% rule were not in place, the large movement of students would cause employment displacements and a large drop-off in revenue for districts with a high concentration of low-performing schools.

The combination of the 10% rule and the large number of schools on the list meant that many low-scoring schools in some large districts could not be selected. This resulted in some schools with relatively high API scores being named among the lowest-performing schools in the state. For example, there were 18 middle schools from Decile 3 and 341 elementary schools from deciles 3–6. Among those elementary schools were 11 that had 2009 Base API scores that equaled or exceeded the established state API target of 800. In contrast, all selected high schools came from deciles 1 or 2.

It is too early to tell how many students will exercise their option to transfer schools, but if the experience of No Child Left Behind is a good predictor, the number of transfers will be relatively small. NCLB allows students in Program Improvement (PI) schools (those that have missed performance targets for two consecutive years) to transfer to non-PI schools, with the district of origin providing or paying for the transportation of transferring students for as long as the initial

school is in PI. A small number of families chose to move their children to a new school under NCLB's provisions. Because the Open Enrollment Act does not require the district of origin to provide or pay for transportation, transfers under the new program could be even more rare.

District staff may have to work with different CALPADS administrators if Gov. Schwarzenegger has his way

Schwarzenegger has for some time expressed frustration with the pace of implementation of the state's nascent student and teacher data systems. He has even sponsored legislation to transfer management of the projects from the CDE to an office within the governor's administration, a recommendation the Legislature did not approve.

In signing the 2010–11 budget, Schwarzenegger used his line-item veto authority to cut \$10.3 million in federal funding that otherwise would have gone to the CDE and California School Information Services (CSIS) to further develop the two data systems. In addition, he called for legislation directing the funds to another entity to complete the systems.

The systems are formally known as the California Pupil Assessment Data System (CALPADS) and California Teacher Integrated Data Education System (CALTIDES). CALPADS is intended to collect and maintain data on student demographics, course-taking, and test scores, among other items. CALTIDES is intended to track information on teachers' training, credentials, and the classes they are assigned to teach. Policymakers authorized the creation of CALPADS in 2002 and CALTIDES in September 2006. The development of the two systems has been plagued with delays ever since.

All districts could not begin entering data on their students into CALPADS until October 2009, and implementation of CALTIDES has not yet begun.

Consultants diagnose the problems with the data system

CALPADS did not get off to the start that many hoped for; and in January 2010, the CDE brought in a consulting group, Sabot

Federal funding has played a key role in the development of CALPADS and CALTIDES

A federal program offers funding to states to develop and implement longitudinal data systems, allowing them to analyze and use education data, including individual student records. Through this program, California received \$3.2 million in 2006 to implement CALPADS and \$6 million in 2009 for CALTIDES. However, California was not one of 20 states to receive a grant from the \$250 million in additional funding made available through the stimulus.

Gov. Schwarzenegger used his line-item veto authority to cut \$10.3 million in federal funding that otherwise would have gone to the CDE and CSIS to further develop the two data systems, CALPADS and CALTIDES.

Technologies, to diagnose the problems. Sabot found the overall architecture to be sound but also pointed out weaknesses in software, databases, hardware architecture, and processes for revising data systems. In addition, the consultant found the project to be understaffed by IBM, the contractor on the project, and the CDE in terms of the number and expertise of the personnel involved. Soon thereafter, the project team ceased work on the unfinished elements of the project and instead focused on stabilizing the parts of the system that had been completed.

In May 2010, the governor declared in his revised budget that if the system could not receive and reliably transfer data by the end of the calendar year, the administration would seek to contract the project out to a consortium of local school districts and offices within the state's public higher education system.

Meantime, the project team completed its stabilization work and resumed operations. In July, Sabot released another progress report noting the system itself and project management had improved markedly but that the project was not complete and high levels of risk remained. According to

staff involved with the project, improvements continued through the summer. However, the governor was apparently still not satisfied with the progress, as indicated by the line-item veto.

SPI O'Connell opposes CALPADS funding veto

Superintendent of Public Instruction Jack O'Connell reacted strongly, calling the move "shortsighted, ill-informed, and hypocritical." O'Connell admitted to "initial operational challenges" but said the system is working and that important data are being collected and reported because of it. According to CDE staff, 99% of districts and charter schools (representing 99% of students statewide) have successfully submitted enrollment and dropout data through CALPADS. O'Connell called this significant given the state's education spending cuts in recent years and the fact that the governor has repeatedly vetoed legislation calling for \$5 per pupil to support districts' capacity to report data to CALPADS accurately.

O'Connell stated that with one more year of data the state could for the first time provide a four-year graduation rate based on the tracking of individual students over time. Such a report, though perhaps not based on

perfect information, would represent an improvement over the estimates provided up to this point. O’Connell stated that the veto of CDE and CSIS funding would likely prevent the submission of accurate and timely data needed to provide sound information on graduation rates.

Plaintiffs in CQE v. California argue that education funding levels are not “based on what it costs to deliver all children a meaningful education, including the education needed for children to reach proficiency on the State’s own academic content standards.”

CDE staff have cited other problems they say will arise because of the funding veto. For example, subsequent submissions of data will be delayed and/or the quality of the data will be compromised. This includes, for example, data on the courses that teachers are leading and students are taking, as well as the grades they earn and information about English learners. CDE staff said that CALTIDES implementation would be delayed by at least one year as well.

Those short-term concerns may very well be realized, or perhaps the new Legislature will come to an agreement with the governor in his few remaining days in office that heads off some of these problems. The more medium- and long-term horizon of CALPADS and CALTIDES will be worked out in concert with the newly elected governor and superintendent of public instruction.

Creating a transitional kindergarten will be necessary

One of California’s most significant education policy changes in 2010 was to raise by three months the minimum age for a student to enter kindergarten. Currently, children who turn 5 on or before Dec. 2 are admitted. Beginning in 2012–13, a student will have to turn 5 by Nov. 1. In 2013–14, the cut-off will be Oct. 1, and in 2014–15, the date will be Sept. 1.

A student with a birthday after the cut-off will be allowed to start kindergarten if the parents apply for early admission and the

school district agrees that it would be in the best interest of the child.

However, most students with late birthdays will be placed in a transitional kindergarten, a new two-year program in which a modified kindergarten curriculum is supposed to be taught in the first year. The

thinking behind the policy change, embodied in Senate Bill (SB) 1381, is that kindergarten has become more academically rigorous in recent years as standards-based education has taken root and that many of the younger kindergarten students are not ready developmentally for the academic work. Supporters of SB 1381 believe that ensuring that students are 5 when they officially enter kindergarten, and offering younger students an extra year of preparation, will help address the school readiness issue.

What remains to be seen is whether schools will offer a modified, transitional kindergarten curriculum and, if so, whether the modifications will be developed locally or by a state-level organization.

California’s school funding system faces two legal challenges

Two complementary lawsuits filed in 2010—*Robles-Wong v. California* and *Campaign for Quality Education, et al. v. California*—call upon the state to make its finance system more rational and fund it accordingly.

Robles-Wong v. California was filed first

In May 2010, the California School Boards Association, Association of California School Administrators, and California State PTA filed a lawsuit against the state seeking a declaration that the current education funding system was unconstitutional. The plaintiffs assert that California has prescribed

learning goals in the form of academic content standards adopted by the State Board of Education and has aligned instructional materials, teacher professional development, and assessments with those standards. Yet, the plaintiffs maintain, the state has made “no attempt to align funding policies and mechanisms with the educational program it has put in place, to determine the actual cost of the educational program, or to provide districts with the financial resources to provide the programs and services it has prescribed.” The suit also asserts that the state does not take into account the learning needs of English learners and economically disadvantaged children. At the time the suit was filed, nine school districts and more than 60 students had joined as plaintiffs.

The suit calls for a new funding system that supports the implementation of California’s rigorous content standards and reflects the learning needs of all students, but it does not present a specific alternative funding method or amount.

Campaign for Quality Education, et al. v. California has similar goals

Two months after *Robles-Wong v. California* was filed, the Campaign for Quality Education (CQE), the Alliance for Californians for Community Empowerment, Californians for Justice, and the San Francisco Organizing Project filed a similar lawsuit against the state. The plaintiffs in the second suit assert that California’s constitution establishes a right to a meaningful education that will prepare students to succeed economically and participate in the nation’s democracy, and that the state is violating this right. They argue that funding levels are not “based on what it costs to deliver all children a meaningful education, including the education needed for children to reach proficiency on the State’s own academic content standards.”

The plaintiffs would like the state to provide schools with more money, but they also seek to ensure existing and additional funds are used efficiently. For example, to use funds efficiently, the plaintiffs say, the state must have an adequate student data system;

support teacher development, evaluation, and effectiveness; and provide preschools for all low-income children. At the time the case was filed, more than 20 students and parents were also plaintiffs.

Resolution of the cases depends on state and court actions

Although it is theoretically possible that state lawmakers could, without further prompting, come up with a new design and funding level for California's school finance system that would motivate the plaintiffs to drop their lawsuits, it is not likely given the state's fiscal condition.

A more likely scenario is an out-of-court settlement. Other lawsuits challenging state policies—such as the *Williams* case filed in 2000 to create more equitable access to educational resources and the *Chapman* case filed in 2001 to delay the consequences of the state's exit exam for students with disabilities—were settled out of court. Indeed, California's outgoing secretary of education, Bonnie Reiss, expressed publicly in August 2010 that the state government was ready to settle the lawsuits. However, Reiss wanted settlement of the case tied to policy changes in other areas. For example, she sought plaintiffs' support for specific priorities of the Schwarzenegger administration, such as redesigning the teacher performance evaluation process and easing restrictions on school districts' ability to contract out for services or lay off teachers on any basis other than seniority.

To date, however, the state's official response has been to fight the suits within the court system. The Attorney General's office is contesting the plaintiffs' claims and has essentially filed motions to dismiss the two cases. In response, attorneys for the plaintiffs have filed their opposition to those motions, and the two sides were scheduled to present oral arguments on the matter shortly after this report went to press—on Dec. 10, 2010.

Because the attorney general typically defends the state in cases such as this, it is unclear whether Jerry Brown, as governor, will respond to the lawsuits in the same way that he has as attorney general.

Action on the overdue ESEA reauthorization remains doubtful in the near term

Regardless of the outcome of the court cases, California schools will continue to be affected by federal policies such as the Elementary and Secondary Education Act (ESEA).

President Lyndon Johnson signed the original ESEA in 1965 to support the education of the country's poorest children, and federal policymakers are supposed to reauthorize (revise and renew) the law every five to six years. They last took such action in 2002 when they created the No Child Left Behind Act (NCLB), so reauthorization is now well overdue.

Since 2002, ESEA has been a key driver in creating a school accountability system based on student test scores, but the proportion of funding it represents is less significant. States and U.S. territories receive more than \$20 billion per year in total through ESEA. In California, the allocation of about \$3 billion represents approximately 5% of total revenues for schools. The act supports a range of activities including reading in the early grades, professional development for teachers and principals, extra support for English learners, student testing programs, and before- and after-school programs.

In late February 2010, the House Education and Labor Committee began hearings

states to adopt academic content standards in English and math that will prepare all high school graduates for college and jobs that will support a family. In addition, the blueprint calls for assessments that are aligned with those content standards and that do a better job than current tests of assessing higher-order skills and student improvement. To avoid a narrow focus on English and math, the president's plan would support teacher professional development and instructional models that promote a well-rounded education.

2. **Great teachers and leaders in every school**—The administration is calling for a multipronged effort to improve the quality of instruction. This includes evaluating teachers and principals based partly on improvement in their students' test scores, developing new ways to recruit and retain effective teachers, increasing the effectiveness of teachers in high-needs schools, and monitoring teacher preparation programs and investing more heavily in the stronger programs.
3. **Equity and opportunity for all students**—This involves both rewards for schools that help students improve their academic achievement and intervention for struggling schools. It also includes extra

The Obama administration's A Blueprint for Reform sets out a vision of a reauthorized ESEA and echoes many of the priorities described in the stimulus initiatives.

on a bill related to ESEA reauthorization, but it dealt with charter schools, not a core issue in the debate. In early March, the Senate Health, Education, Labor, and Pensions Committee held its first hearing on ESEA reauthorization. And in mid-March, the Obama administration released *A Blueprint for Reform*, which sets out its vision of a reauthorized ESEA. Echoing many of the priorities described in the stimulus initiatives, the document focuses on five areas:

1. **College- and career-ready students**—The Obama administration is encouraging

support for traditionally lower-achieving student groups and a push for greater equity of resources between high- and low-poverty schools.

4. **Raise the bar and reward excellence**—President Obama wants to continue Race to the Top and expand it to allow districts to apply directly for funding rather than receiving it via a successful state application. (Race to the Top is a competitive grant program promoting reform in the four areas described at the top of page 12.) The administration is also proposing

additional support for charter schools and other forms of public school choice as well as help for high-needs high schools to provide access to college-level courses and promote college-going.

5. Promote innovation and continuous improvement—Under this heading, the administration proposes continuing the i3 program, making some federal funding streams more flexible and more competitive, and supporting programs that link schools with other community organizations so students receive support in a number of areas in and out of school.

The administration also wants to change some of the most prominent aspects of

remains to be seen. Washington insiders expect Congress to elect new leadership, name new committee chairs, and try to complete action on the federal budget this year but not achieve much else during the lame duck period. For 2011, some experts see glimmers of hope, while others do not expect reauthorization of ESEA until 2012—or even 2013, after the next presidential election.

Reg Leichty of EducationCounsel, a Washington, D.C., firm providing legal and policy advice on education issues, is cautiously optimistic about the prospects for ESEA reauthorization in 2011. “With Republicans now having more power in Congress, and some of those members being quite

soon. As reported on an *Education Week* blog in November 2010, about half of some 30 opinion leaders surveyed by Whiteboard Advisors, a policy-oriented consulting group, believe that reauthorization will not occur until 2013.

The timeframe of the state's implementation of Common Core standards remains uncertain

On Aug. 2, 2010, the California State Board of Education voted unanimously to adopt a new set of academic content standards in English language arts (ELA) and math. Content standards lay out what students are supposed to know and be able to do in each grade and subject. The new learning expectations grew out of the Common Core State Standards Initiative, a project intended to develop a set of specific, clear, rigorous standards that states can share. The initiative received important support from the federal government, which called for states to adopt some kind of common standards as part of the Race to the Top competition.

The Fordham Foundation, which has rated state standards for several years, found the Common Core to be clearer and more rigorous than ELA standards in 37 states and math standards in 39 states. However, Fordham gave California's standards in both subjects an A and gave the Common Core ELA standards a B+ and the math standards an A-. Before California adopted the Common Core standards, it modified them, particularly in middle grades math.

During the next few years, the standards that have been in place since 1997 will remain in effect while state officials consider when and how to roll out the new standards in the field. The newly elected governor, Legislature, and superintendent of public instruction, as well as appointed members of the State Board of Education, will all play key roles in the decision process. Implementing the new standards will require new curriculum frameworks, which guide standards-based instruction and the development, adoption, and purchase of new instructional materials. In addition, teachers and school leaders will need training. All of this will cost a substantial sum of money at a time when the state can ill afford it.

During the next few years, the current standards will remain in effect while state officials consider when and how to roll out the new standards in the field.

NCLB—the assessment and accountability provisions. Obama's team supports the current disaggregation of test scores to monitor the performance of student subgroups but wants to add factors such as attendance, course completion, and school climate to school accountability systems.

In addition, the administration's proposal would eliminate NCLB's expectation that states should get all students to proficient on their respective standards-based tests by 2014. Instead, states would set their own improvement targets with respect to rigorous standards common across states. Schools that struggled to make progress would face differentiated interventions depending on their performance—as opposed to NCLB's imposition of Program Improvement for all schools that failed to make adequate yearly progress, no matter how far from the targets they were. In addition, schools that repeatedly failed to make progress would not necessarily have to give students the option of transferring out or provide supplemental instruction as is now required.

The extent to which the final reauthorized act will reflect the president's proposal

conservative and focused on greater local control,” says Leichty, “a key factor will be whether they will be able to build a working coalition within their caucus around K–12 issues. That said, I'm betting that the two houses will vote on a reauthorization bill by the fall.” However, Leichty believes that if Congress fails to act in 2011, Duncan might use his statutory waiver authority to make major changes to the law through regulation in 2012.

In contrast, Jack Jennings, a former longtime Congressional aide and current president and CEO of the Center for Education Policy in Washington, D.C., predicted in February 2010 that if reauthorization did not happen in the spring or summer of 2010, the current NCLB rules would remain in place until the 2012–13 school year. Jennings could not foresee bold legislative action shortly before the midterm elections and assumed that the new Congress seated in 2011 would need time to get organized before engaging in serious work on a reauthorization bill.

Other inside-the-Beltway experts and state officials are equally or more pessimistic about reauthorization happening any time

Lawmakers will need to decide whether to maintain the moratorium on updating curriculum frameworks and adopting new instructional materials. Policymakers established the moratorium in early 2009, and it is not scheduled to end until 2013–14. Even if it is lifted, the State Board of Education may not adopt instructional materials in math until November 2014, and in ELA until November 2016, according to a proposal that the CDE presented to the board in November 2010. The proposal indicates that those adoptions would not take place until 2017 and 2019, respectively, if the current moratorium is maintained in statute.

Whatever the Legislature decides, some stakeholders are raising questions as to

whether the traditional instructional materials adoption process is the best way to get materials that match the lean budgets that districts now have. Thus, deliberations about implementing the Common Core could prompt discussions on improving the adoption process.

Another factor coming into play is the multistate effort to establish tests based on the Common Core. Two coalitions have been awarded federal grants to develop such tests. One is called SMARTER Balanced Assessment Consortium, and the other is called Partnership for Assessment of Readiness for College and Careers (PARCC). Both groups are aiming to have tests ready by 2014–15.

In 2010, outgoing California officials signed a nonbinding agreement to join PARCC. Michael Kirst, a professor emeritus of education at Stanford University and adviser to Governor-elect Brown, stated in November 2010 that he believes that incoming state officials should consider participating in both consortia and seeing what plans they develop, or consider becoming a “governing” state of one of the groups in order to gain more influence in its direction. Kirst, speaking to *Cabinet Report*, emphasized that he was expressing his own opinion and not that of Brown.



“Doing more with less” is a daunting challenge for California schools

In some ways, Secretary Duncan’s recent urging to see school funding reductions as an opportunity for innovation are less applicable in California because of the conditions on the ground in this state. For example, Duncan suggests targeted increases to high school class sizes. That is a very different conversation with different consequences in this state, which has 43 teachers for every 1,000 high school students, than it would be in a state at the national average of 84 teachers per 1,000 students.

That said, some of Duncan’s larger points about rethinking the status quo have special relevance for California because the fiscal conditions are severe and likely to remain so for years to come.

One of the secretary’s larger themes was that education systems need to do more of what works and less of what does not. He called on state and local decision makers to rethink traditional policies and practices such as students’ seat-time requirements, compensating teachers based on their education credentials, and over-placement of students in Special Education. The secretary said the “factory model of education” is outdated and that the wise use of technology can help schools personalize instruction.

However, although Duncan believes that “transformational change” could bring about better results and a more efficient use of

resources, he also acknowledged that all parties involved in education still have much to learn about measuring, evaluating, and improving productivity. Further, the administration’s creation of incentive programs such as Race to the Top and the i3 grants are nods to the fact that finding new ways to boost productivity can cost money and that it takes extra resources to be able to develop, test, and refine new approaches.

California has shown some willingness to innovate

It was with the hope of getting some resources to support innovation that California state officials revised some key policies and entered the federal Race to the Top (RTT) grant competition a year ago. In spring 2010, the state learned that its initial application was not successful. Some debate ensued

about whether California should apply for funding in the second round, and then seven school districts came together to take the lead for California’s second-round application. Those unified districts included:

- Clovis
- Fresno
- Long Beach
- Los Angeles
- Sacramento City
- San Francisco
- Sanger

It is notable that the group includes three of the four largest school districts in California and that they together serve a high proportion of students who face educational challenges such as poverty.

Although named a finalist in the second round, California ultimately did not receive a grant. But these districts have announced

plans to move forward together with some of the reforms discussed in the RTT application anyway. Specifically, they intend to implement the Common Core standards that the State Board of Education adopted, improve their use of student achievement data to inform instruction, and look for ways to provide greater support to their lower-scoring schools. Integral to these efforts will be attempts to learn from each other and create economies of scale.

To coordinate their work, these seven districts launched a nonprofit organization, California Office to Reform Education (CORE), in October 2010. The Silver Giving Foundation has awarded CORE a \$3 million grant, which is the organization's primary funding source.

As this report went to press, CORE was still a relatively new organization. Both state and local decision makers will likely watch it with interest. The greatest hope for the participating districts is that they will work synergistically and develop new, more efficient approaches to helping students prepare for the demands of higher education and the workplace.

If President Obama is successful in convincing Congress to authorize a third round

of Race to the Top funding in which districts could compete directly for funding—and CORE produces positive results—these seven California districts would likely be well positioned to compete for a grant.


The odds are difficult for the state as a whole

A few other California school districts and schools have received some extra resources to fuel innovation and improvement. A handful will have the chance to use money to develop or bring to scale new strategies for addressing the achievement gap. Another 92 schools (out of nearly 10,000 schools in California) were selected for SIG interventions that in most cases also include large new investments. And yet another group of schools that are receiving funds through QEIA provide a test case for the theory that reducing staffing ratios, ensuring students have experienced teachers, and increasing accountability are the keys to improved student outcomes.

In a state with nearly 1,000 school districts and more than 6 million students—where education cuts amounting to billions of dollars have been made in recent years—these extra funds for innovation are

definitely on the margin. This year, one out of six local educational agencies face the paradox of trying to invest in innovation and improve student achievement while struggling to just keep themselves fiscally solvent. And the state's continuing budget dysfunction is placing greater burdens on districts in regard to uncertain funding and funding deferrals that make cash flow a critical management concern.

Looking forward, school revenues could decrease more even as costs for such things as health care and pensions continue to rise. Districts are also called upon to respond to new policy demands and face uncertainties about whether the short-term flexibility that has helped them cope financially will continue.

All told, school districts in most other states are in a much better position to respond to the “new normal” with better, more cost-effective ways of operating schools and maximizing student achievement. Yet, in few other states is the need to do so more critical. It remains to be seen whether the Golden State—with its long history of creativity and innovation—can somehow beat the odds and succeed in these most challenging times. 

ENDNOTES

1 The demographic composition of the responding districts was fairly representative of the state as a whole. In addition, five of the 10 largest school districts returned the survey.

2 Assembly Bill 142 did not alter the provisions of Proposition 20, which directs a portion of lottery revenues to instructional materials under certain circumstances. Under that measure, if education's share of the lottery revenue in a given year is higher than the amount provided in 1998–99, half of the overage is to be used only for instructional materials. In recent years, about 10%–15% of the lottery funds dedicated to schools have been earmarked for instructional materials.

3 Proposition 98, approved by the state's voters in 1988, amended the California Constitution to create a minimum spending guarantee for K–14 education (K–12 schools and community colleges). The guarantee reflects only state general fund monies and local property taxes allocated to K–12 schools and community college districts.

4 Capital outlay refers to spending on major pieces of equipment and constructing and modernizing buildings.

5 Physical plant refers to systems supporting the maintenance and operations of facilities—e.g., plumbing, electrical, and heating/ventilation systems.

6 The State Board of Education (SBE) adopts instructional materials for grades kindergarten through eighth. For grades 9–12, districts select their own materials using SBE-adopted curriculum frameworks and “standards maps” for guidance. (Standards maps show how materials align with the state's academic content standards.)

7 Until this policy change was made, districts were required to provide their students with instructional materials by the beginning of the first school term that began within two years of adoption by the State Board of Education.

8 Legislative Counsel is a state agency with lawyers who advise the Legislature and others.

9 The total revenue limit funding referred to is the 2010–11 Second Principal Apportionment (“P2”).

10 The label refers to Senate Bill 4 of the fifth extraordinary legislative session of 2009–2010.

Budget Basics for Schools and Communities

Watch for an EdSource Budget Brief in January that describes the current year budget for K-12 schools—plus a separate brief on the state budget for community colleges.

EdSource's tools for understanding and explaining California school finance can be found at: www.edsource.org/school-finance.html

The Basics

- **Finance System:** This section of EdSource's website provides concise explanations of school funding mechanisms in California.
- **District Budgets:** This website section provides information on the constraints districts face as they build and manage their budgets.
- **Budget Calendar:** This calendar shows the budget cycle for school districts and the state.
- **2010 Resource Cards on California Education:** This compact set of cards contains at-a-glance facts on California's education system, including finance data. *Available for purchase online.*
- **Glossary of Terms:** EdSource's online glossary contains more than 250 terms that define school finance and education policy. Find everything from adequacy to *Williams v. California*.

Presentation Tools

- **Q&A: The Basics of California's School Finance System:** This two-page summary, updated January 2009, is ideal for community meetings and those new to school finance. *Free download.*
- **Q&A: The School District Budget Process:** This Q&A discusses budget pressures facing school districts, the role of collective bargaining, and how the public can influence local school budget decisions. *Free download.*



- **School Finance in California: Understanding Our Complex System:** This 21-slide presentation explains the basics of California school finance. *Download a PDF of the presentation for free.*

Follow-Up Questions

- **School Finance FAQs:** EdSource has compiled answers to some of the most frequently asked questions on school funding. If you have additional questions, e-mail us at edsource@edsource.org and a member of our research staff will provide you with the information you need.

Digging Deeper

- **Selected Readings on California School Finance:** The definitive textbook on California school finance has all of our most popular school finance publications plus an overview of the system. www.edsource.org/pub_SelectedReadings.html *The 2011 edition will be available to purchase in January. You can order a printed version or download a PDF.*

- **Ed-Data Website:** Access detailed financial data about school districts, county offices of education, and the state. www.ed-data.org

News and Resources

- **School Finance News and Resources:** Provides updated news and resources on school finance, including the federal stimulus, California education headlines, and policy analyses from School Services of California and Strategic Education Services. www.edsource.org/iss_fin_news.html

You are invited to link to any of our school finance web content from your own website. Many of our pages can be e-mailed or printed.



To Learn More

The Education Data Partnership (Ed-Data) website provides a wealth of financial data on the state as well as individual school districts and county offices of education. Most of the information from Ed-Data cited in this report can be found by going to the home page, www.ed-data.org, clicking on the link to state reports, and then choosing "Financial Reports for State."

For a transcript of Secretary Arne Duncan's Nov. 17, 2010 speech, go to: www.ed.gov/news/speeches

On the Legislative Analyst's Office website, www.lao.ca.gov, one can find the publications referred to in this report—*Year One Survey: Update on School District Finance and Flexibility* and *The 2011–12 Budget: California's Fiscal Outlook*.

For information about California's applications for Race to the Top funding, see: www.caracetothetop.org

A Blueprint for Reform, the Obama Administration's proposal for a reauthorized Elementary and Secondary Education Act, can be found at: www2.ed.gov/policy/elsec/leg/blueprint/blueprint.pdf

School Services of California, Inc. can be found online at: www.sscal.com

The California Department of Education survey on cutbacks that local education agencies have made is located at www.cde.ca.gov/nr/ne/yr10/yr10rel71.asp. Information about CALPADS and CALTIDES can also be found on the CDE website. See, respectively, www.cde.ca.gov/ds/sp/cl/ and www.cde.ca.gov/ds/dc/es/caltides.asp.

The analysis of the academic performance of schools in the Quality Education Investment Act (QEIA) program, *Lessons from the Classroom: Initial Success for At-Risk Students*, can be found at: www.cta.org/Issues-and-Action/QEIA/QEIA.aspx

To read about *Robles-Wong v. California* and *Campaign for Quality Education, et al. v. California*, see, respectively, www.fixschoolfinance.org and www.fairschoolsnow.org.

The Fiscal Crisis and Management Assistance Team website can be found at: www.fcmat.org

EducationCounsel can be found online at: www.educationcounsel.com

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