



School Finance Highlights 2007–08

IN CRAFTING THE 2007–08 CALIFORNIA STATE

budget, lawmakers faced conflicting pressures and an uncertain state economy. As a result, the 2007–08 budget relies on some questionable assumptions and creates future difficulties. Despite this, policymakers made sure that schools and community colleges (K–14 education) were funded at a level that provides a cost-of-living adjustment for virtually all state programs. However, this steady state allotment does not take into account the increasing pressures that educators are facing.

K–12 education gets a “status quo” budget

K–12 education received a status quo budget this year, with total funding per pupil increasing modestly. To accomplish this, policymakers supplemented the legally required minimum funding level with one-time funds and shifted monies from the Public Transportation Account for some ongoing programs. They will need to find other revenue sources to sustain these programs in future years.

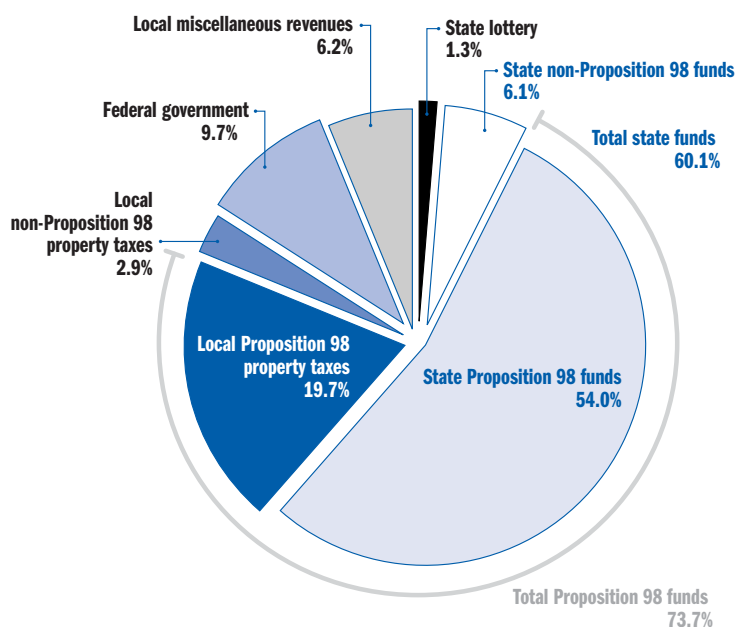
Proposition 98, passed by voters in 1988, guarantees K–14 education a minimum amount of state and property tax revenue largely based on the health of the state’s economy. Proposition 98 dollars represent about 75% of the funds that K–14 education receives. (For a full explanation of Proposition 98, see www.edsource.org/pub_update_prop98.cfm or EdSource’s full report, *School Finance 2007–08* at www.edsource.org/pub_abs_fin07-08.cfm.)

Total estimated Proposition 98 revenues for K–12 education for 2007–08 are \$50.8 billion. The Legislative Analyst’s Office (LAO) calculates that the 2006–07 budget provided \$8,218 in Proposition 98 dollars per K–12 pupil and that the 2007–08 budget allocates \$8,564, an increase of \$346. If one-time and public transportation monies are included, the 2007–08 amount is \$8,659 per pupil—a \$441 annual increase.

Local education agencies receive a full cost-of-living adjustment (COLA)

This year policymakers made it a priority to fully fund a COLA on most K–12 programs.

figure 1 | Revenues for K–12 education come from multiple sources



Total estimated revenues for 2007–08 from all sources are about \$68.9 billion.

DATA: CALIFORNIA DEPARTMENT OF EDUCATION (CDE)

EdSource 12/07

Fully funding a COLA on revenue limit (general purpose) funds is a statutory priority, but doing so for categorical (earmarked) dollars is not. Despite this, policymakers provided a 4.53% COLA for both revenue limits and categoricals.

The COLA totals \$2.1 billion statewide. Of that amount, \$1.5 billion goes toward revenue limit funding, with the rest for categorical programs: \$150.9 million for Special Education; \$69.7 million for child care programs; \$58.6 million for class size reduction; and \$303 million for other programs.

Statewide average daily attendance fell

An adjustment for changes in average daily attendance (ADA) is another priority within Proposition 98. However, although the COLA represents an increase to state K–12 spending this year, the ADA adjustment is a decrease. From the time Proposition 98 was passed until 2005, attendance generally grew each year,

which is why the shorthand term for the ADA adjustment is “growth.” In 2007–08 “growth” funding is a negative \$42 million for revenue limits and a positive \$32 million for categorical programs, resulting in an overall “growth” adjustment of negative \$11 million. The impact on individual local education agencies varies.

The state’s K–12 enrollment decline is expected to reverse in 2010, according to Department of Finance figures. Although enrollment is not the same as ADA, an increase in enrollment would generally result in positive growth in ADA.

Lottery funding is flat; federal funding falls slightly

Sources outside of Proposition 98 provide the rest of K–12 funding. Lottery funding for education was projected to be the same as last year. Federal education funding provided to California has been on a downward trajectory, though the decrease in 2007–08 is not as large as it has been in the recent past. (See Figure 1.)

Districts face increasing challenges

Although districts can be thankful for a status quo allotment this year, they are facing increased financial and performance pressures.

Financially, one issue is the ever-escalating costs of employee benefits. According to Ed-Data, in 1995–96 districts spent 17.0% of their operating funds on average for employee benefits, of which the largest share is health benefits. In 2005–06, the average district spent 19.7%.

In addition, state and federal expectations for academic performance are rising rapidly. Under the federal No Child Left Behind Act (NCLB), all students in schools that receive Title I Basic Grant dollars are expected to be proficient in reading and math by 2013–14. Pressure to meet this requirement will increase dramatically this school year despite the 3% decline in federal Basic Grant funding in 2007–08. In addition, state support for supplemental instruction may not match what schools will spend to meet the greater demands for academic achievement.

Mandate reimbursements are underfunded

The state is required to repay the costs to school districts for complying with 38 mandates but appropriated only \$38,000 to fund this commitment for the entire state. This sum meets the legal minimum but is far short of the anticipated \$160 million in reimbursement claims this year. The California School Boards Association Legal Alliance and four school districts have filed suit to compel the state to repay districts for a large backlog of unreimbursed costs.

Other budget developments include funding shifts

This year more education dollars go to child care spending, but hoped-for support for the state's data system did not materialize.

More child care spending is counted toward the Proposition 98 guarantee

The state has historically used a mix of Proposition 98 funds and federal monies to fund some child care programs under CalWORKS

(which helps unemployed parents). This year, California increased the Proposition 98 portion by \$269 million, which freed up federal Temporary Assistance to Needy Family funds for other health and welfare programs. This in turn freed up equal amounts of General Fund monies for other purposes.

Additional funding for local implementation of CalPADS did not materialize

For the last few years, California has been developing the California Pupil Assessment Data System (CalPADS), which will allow individual student testing data to be tracked over time. Implementation of CalPADS requires some centralized, state-level software and data-warehousing capability and the use of unique student identifiers that have already been created.

In addition, any statewide system relies on regular data collection and correction at the local level, which requires money for staff training and time. California appropriated \$9.5 million in one-time funds last year to help school districts fully participate in CalPADS. This year the state considered spending an additional \$65 million in one-time funds for similar purposes. When the final budget was crafted, however, policymakers decided that the demands of other existing programs did not allow for expanded funding.

By 2010–11 education's guarantee could increase substantially

Some analysts believe that the provisions of Proposition 98 will result in higher per-pupil funds for K–14 education in the near future, creating resources to implement reform ideas.

Before that, however, the state will have to get through a few tough years, including this one. A November 2007 report by the LAO indicated that some of the original assumptions underlying this year's budget may be flawed. The report said new revenue projections show that Proposition 98 in 2007–08 requires \$400 million less in spending than originally believed. It suggested the Legislature consider decreasing K–14 spending by this

Charters receive more facilities funding

Lawmakers doubled the facilities program for charter schools serving disadvantaged students. Under Senate Bill (SB) 740, enacted in 2001, charter schools located in low-income areas can be reimbursed for facility rental costs. The bill allows reimbursements up to \$750 per pupil but no more than 75% of their total rent. For each of the last two years, the state appropriated \$9 million for this program. Legislation enacted this year (SB 20) appropriates \$18 million in one-time monies for this purpose.

amount and delaying implementation of an intervention program, the Quality Education Investment Act, which could save another \$450 million for the General Fund (but not affect the ongoing Proposition 98 guarantee).

In addition, the LAO is predicting that in 2008–09 the state may face—absent some correction—an \$8 billion deficit. But the report also says that beginning in 2010–11, the Proposition 98 guarantee may grow, reaching a cumulative total of \$7 billion by 2013 in ongoing education funding above baseline expenses (COLA, attendance growth, mandate reimbursement, and natural growth in existing programs).

Those hopeful that 2008 will be the “Year of Education” believe it is an ideal time to plan reforms that could be implemented as those increased funds become available. ■■

Community colleges also get a status quo budget in 2007–08

Similar to the state's K-12 schools, this year community colleges are receiving a funding level—\$8.6 billion—that allows them to maintain most programs and keep pace with inflation. But, like K-12 schools, the budget does not provide enough—only \$4 million—to cover the cost of state mandates.

