



# **School Finance in California: Understanding our Complex System**

**California State PTA - April 29, 2011**

## **EdSource**

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# How California compares - in terms of students



- A million more students than NY and Florida combined
- Latinos are almost half of all students
- The highest proportion of children w/ a parent who is not a high school graduate
- Almost half of students qualify for free/reduced price meals
- A quarter of students are English learners

# How California compares - in terms of resources

- Adjusted for wage levels, California spent \$1,444 less per pupil than the national average in 2007-08
- Average teacher salaries are high, even when adjusted for cost of living
- California has dramatically lower ratios of staff per students:
  - 7 staff for every 10 in U.S. as a whole
- In a school of 1,000 students:

Teachers -	California: 48	U.S.: 64
Prins/assts -	California: 2.3	U.S.: 3.2
- After years of low investment California has put more than \$100 billion into facilities since 1998

# A vast and diverse system



- More than 6.2 million students
- Almost 10,000 schools
- 967 school districts ranging in size from about 20 students to over 680,000

The 10 largest districts serve 21% of the students

About 40% of districts serve 1,000 students or fewer

# Education agencies in California



- Elementary districts - 551 total
- Unified districts - 332 total
- High school districts - 84 total
- Charter schools - 750 total (2008-09)
- County offices - 58 total
- State leadership from the Dept. of Ed, State Board, Governor, and Legislature

# The basic funding structure



- State leaders decide how much annually
- Local districts have little ability to raise revenues
- The state allocates funds to school districts — earmarking some of it
- Districts decide how to spend the funds
- Some districts give schools discretion, most don't
- Charter schools can get their funding directly from the state

# State decides how much



- Total operating funds -- \$57 billion (2010-11)
- State controls more than 80%
  - State General Fund and local property taxes
  - The lottery provides less than 2%
- Federal govt normally contributes about 11%
- The remaining 8% or so is called “local miscellaneous”

# Prop. 98 sets a minimum guarantee for K-14 funding



- Basic principle, based on annual state revenues

  - In normal years, at least the same as the previous year, adjusted for inflation + growth

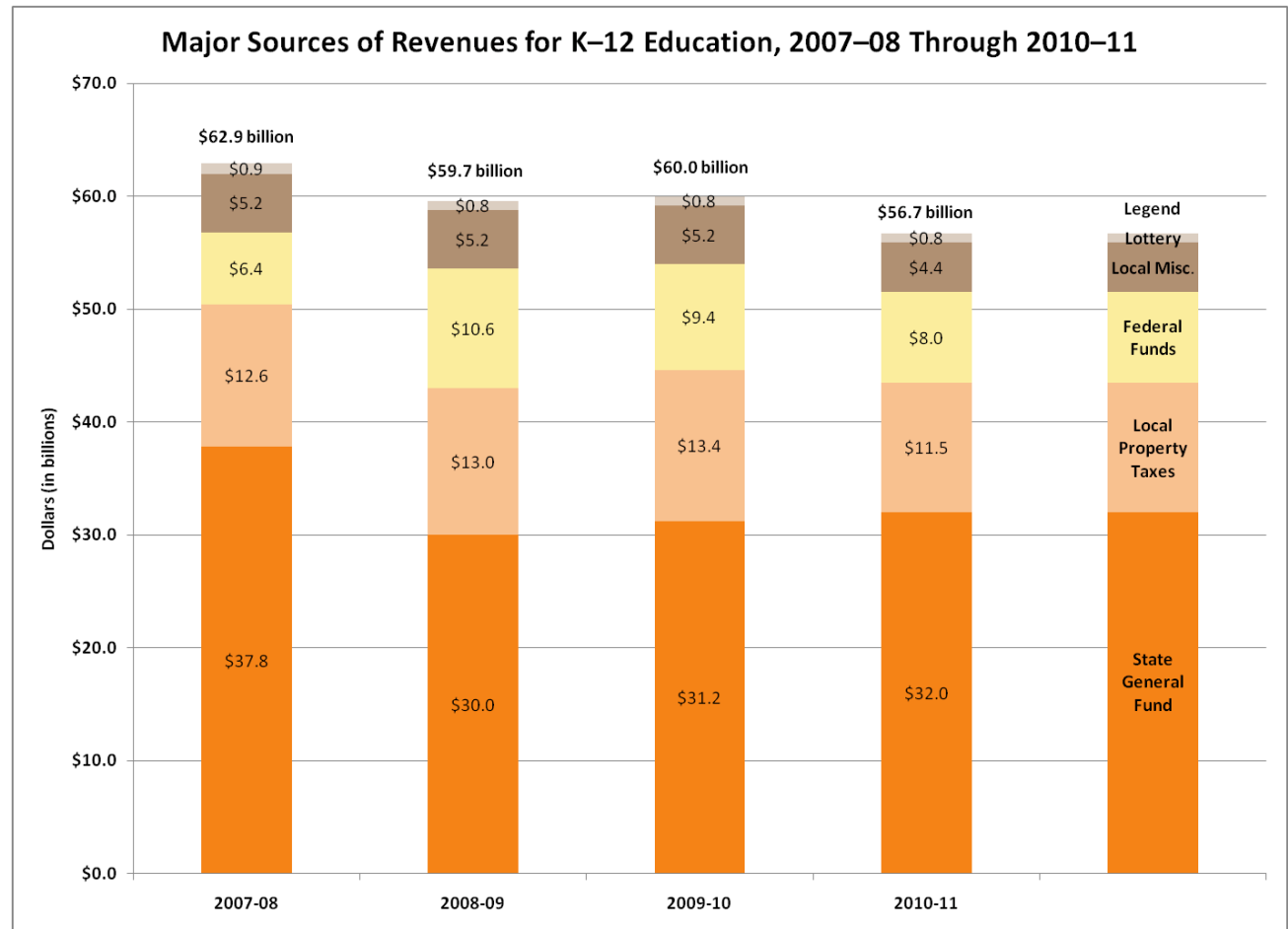
  - In bad years, education suffers along with the state according to a “fair share” formula

  - When economy gets better, state must restore funding to what it would have been

- Has a major impact on state budget and lawmakers’ decision making

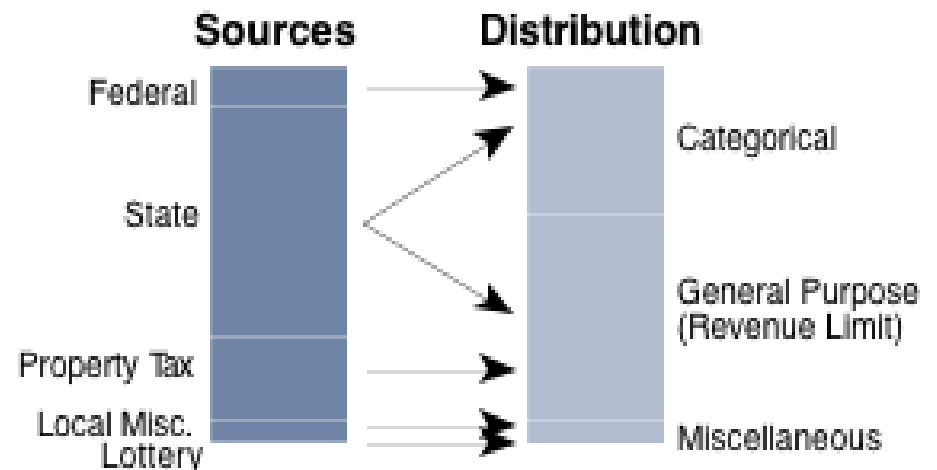
# Changes to education funding since 2007-08

- \$6.2 billion cut in Prop 98 guarantee from 2007-08 to 2010-11
- Funding for 2011-12 will not be better - could be much worse (more on that later)



# How funding goes to districts

- General purpose funds over which districts have discretion – revenue limits
- Categorical funds which are earmarked for special purposes
- About 40 state categorical programs temporarily suspended



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# About revenue limits



- Each district has its own revenue limit
- A per-pupil amount — based on Average Daily Attendance (ADA)
  - E.g.  $\$5,244 \times 10,000 \text{ ADA} = \$54 \text{ million}$
- Different types of districts get different amounts — high school districts highest
- Revenue limits have been equalized (within certain parameters)
- From 2007-08 to 2010-11, per-pupil revenue limit was cut about 10% on average

# About categoricals



- Districts and schools qualify for funding based on:
  - Student & school characteristics
  - Programs they run
  - Compliance with spending requirements
- Some of the biggest categorical programs
  - Special Education
  - Class size reduction
  - Title 1 - under NCLB - for disadvantaged students

# Changes in categorical programs



- Over two decades earmarked funds and number of programs grew - about 60 state programs
- Some attempts at flexibility, e.g. block grants
- Recommendations from various groups urged state leaders to simplify the system
- The 2008-09 budget did so, but in the context of the fiscal emergency and without debate

# The state has given districts more flexibility - for now



- Districts were given greater flexibility over some of their funds - until 2013
- About 40 programs that are funded at \$4.5 billion in 2010-11
- \$7 billion in programs not given flexibility but largely protected from cuts
  - About 20 programs: e.g. Special Education, Child Care, After-school programs, Economic Impact Aid
- Flexibility on K-3 Class-Size Reduction
- Reserve requirements relaxed

# Facilities funds are separate



- Since 1998 - \$35.4 billion in state bonds
- Local bond elections - Prop 39 allowed 55% vote threshold starting in 2001
- Local bonds provided \$66 billion from 1998 to 2010
- The recession is taking its toll:
  - \$6 billion state bond put on hold in 2010
  - Deferred maintenance funds and requirements reduced

# 2011: Is this the year of reckoning for California?



- The state has a \$25 billion gap between revenues and expenditures
- All the “easy” fixes (e.g. deferrals, loans) have been exhausted
- The economy is recovering very slowly - we cannot grow our way out of it
- Have to reduce expenditures and/or raise taxes
- K-12 education has taken the largest share of the cuts since 2007-08

# Governor Brown's plan for closing the \$25 billion gap



## ■ Reduce expenditures \$12.5 billion

Cuts mostly to higher education and health/human services



## ■ Increase revenues by \$12.5 billion

The largest share (over \$9 billion) by extending temporary taxes for another five years - first plan, a June ballot measure

# The Current Situation



- The Legislature approved \$11 billion in cuts, mostly to health & human services
- The June ballot measure is not going to happen, but debates about the tax extensions continue
- Without more state revenues, K-12 education could be cut by another \$4.5 billion in 2011-12

# What happens next?



- Local districts

  - Developing their budgets based on worst case

  - Meet May 15 deadline for teacher/principal layoffs

- K-12 education stakeholders are mounting a full-on campaign in support of the tax extension

- The state will (maybe?) adopt a final budget for 2011-12 by June 30

  - May revision will inform us about economic growth

# The public needs to understand what is at stake



- Polling data show a conflicted electorate
- In December Gov Brown cited this:
  - 60% of Californians don't want more taxes
  - 60% of Californians think schools need more money
  - On average, voters think half of the money the state government spends is wasted
  - Do they know that 40% of the money the state government spends is for our schools?

# The public needs to know the state funds schools



- USC/LA Times poll: less than a third want an all-cuts budget, 63% want to protect K-12
- BUT PPIC warns:
  - "Most Californians' views about the budget are not based on an understanding of where the money comes from and where it goes."
- Those who care about schools can help the public connect the dots

# What happens next - the longer term



- Gov Brown's plan solves the immediate budget situation
- Will not even get K-12 back to the funding level it had in 2007-08.
- The new normal = reduced funding for years to come despite rising expectations
- What do we need in order to serve our children and our future well?

# Questions?



- For background about the system and articles about recent budget actions, see the School Finance section at [www.edsource.org](http://www.edsource.org)
- Email: [mperry@edsource.org](mailto:mperry@edsource.org)
- For financial data related to a specific school district, go to [www.ed-data.org](http://www.ed-data.org)