



School Finance 2006–07 Highlights

THE ANNUAL PASSAGE of California's state budget is the single most important action in determining how much money the state's public schools and community colleges will have each year. The major governing force behind the decision is the minimum funding guarantee—Proposition 98—passed by voters nearly two decades ago.

The interaction of Proposition 98 requirements with volatile state funding levels since the start of this decade has made the funding decisions particularly complicated in recent years. Deficits in some years, changes in the guarantee during the course of a single year, and disagreements about the amount that is due to K–12 schools and community colleges—collectively and separately—have all played a role.

(For an explanation of Proposition 98, see www.edsource.org/pub_update_prop98.cfm or EdSource's full report, *School Finance 2006–07: State Leaders Settle Up with Education* at www.edsource.org/pub_abs_fin06-07.cfm)

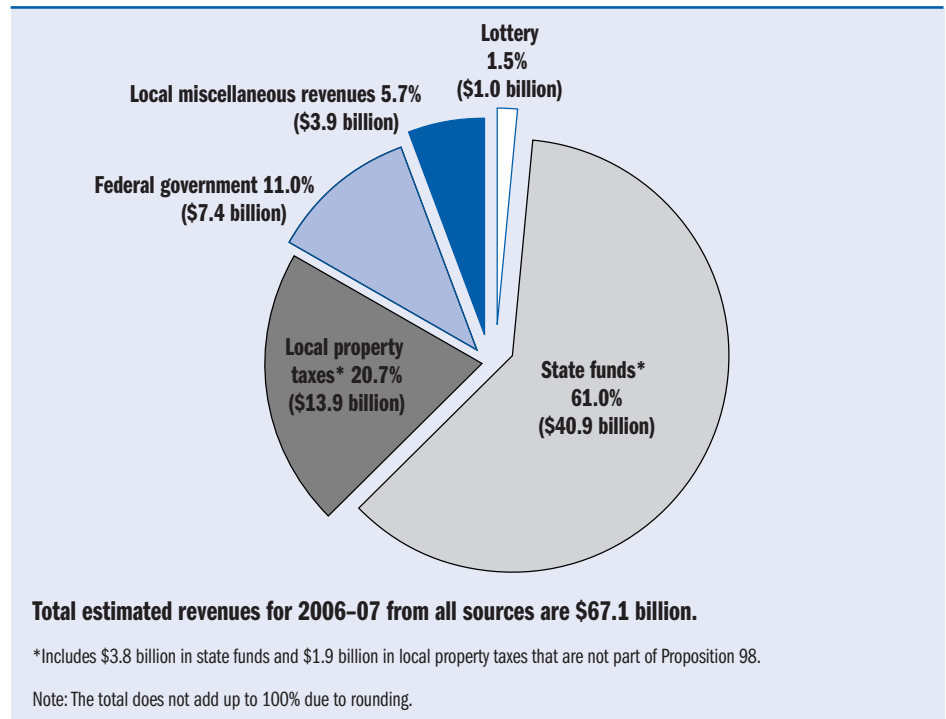
Funding in 2006–07 erases much of the state's debt to K–14 education

For K–12 school agencies, the funding picture for 2006–07 is brighter than it has been since 2001 due mainly to increases in the Proposition 98 guarantee for prior years and resulting adjustments.

Proposition 98 revenues for schools and community colleges (K–14 education) in the 2006–07 budget total \$55.1 billion, according to the Department of Finance. This represents an increase of more than \$5 billion—or about 10%—over the amount in the 2005–06 Budget Act.

Of that \$55.1 billion, about \$49.1 billion is dedicated to K–12 education. Based on a projected average daily attendance of 5.96 million K–12 students, that statewide total amounts to revenues of more than \$8,200 per pupil. However, allocations vary by district and the figure includes all Proposition 98 funding—such as monies for county offices of education, child-care, adult education, and other programs—divided by K–12 average daily attendance.

figure1 | 2006–07 K–12 funding comes from five sources



DATA: CALIFORNIA DEPARTMENT OF EDUCATION (CDE)

EdSource 10/06

The other sources of revenue schools rely on—federal funding, lottery funds, and local miscellaneous revenues (such as community contributions, parcel tax election revenues, and interest income)—are relatively static. (See Figure I.)

General purpose funds and select programs receive large increases

California school districts receive revenue limit funding as the core of their general operating budgets, representing, on average, about two-thirds of their total revenues. The other one-third comes in the form of categorical program funds, which districts receive in varying amounts depending on their student populations, district characteristics, and the programs they choose to operate. The proportions vary substantially by district.

This year the state provided a 5.92% cost-of-living adjustment (COLA) for revenue limits and most categorical programs—increases that totaled \$2.6 billion. The overall allocation for revenue limit funding also

considers student enrollment growth or decline, and 2006–07 marks a turning point in that regard. The state calculated a savings of \$220 million due to declining enrollment statewide. However, with a few exceptions, categorical programs were funded based on student counts in 2005–06, plus the COLA.

Policy makers also make adjustments in revenue limits

The Legislature allocated an additional \$659 million to make adjustments in revenue limit funds. The increases included \$309 million to restore a prior deficit and \$350 million for “equalization aid” to reduce historical variations in funding among districts.

The state supports old and new programs

The Legislature supported increases in existing categorical programs, such as:

- \$973 million for Economic Impact Aid, a program designed to help poor students and English learners.

- \$550 million to the After-school Education and Safety Program (ASES), which provides academic and enrichment activities to students in grades I–9. Funding in 2005–06 totaled \$121.6 million, but provisions of Proposition 49 required this year’s increase. In addition, lawmakers supported new programs, some ongoing and some with one-time funds (see Figure 2). Key ongoing programs created this year include:
 - \$200 million to bring the student-guidance counselor ratio down to 500-to-1 in grades 7–8 and 300-to-1 in grades 9–12. California regularly ranks last in the states with a ratio of about 1,000-to-1 K–12 students per counselor.
 - \$145 million for “neglected” curriculum areas, including \$105 million to hire and train art and music staff and buy instructional supplies and \$40 million to hire credentialed physical education teachers in K–8 schools.
 - \$69.6 million to help all 12th-graders who have not yet passed the California High School Exit Exam.
 - \$50 million for expanded preschool services in the attendance area of elementary schools in the bottom 30% of the Academic Performance Index (API) rankings.
 - \$25 million for professional development for teachers with a high concentration of English learners in their classrooms.

Lawsuit settlements provide extra funds for facilities and low-performing schools

This year the state provided \$137 million for emergency facility repairs of schools in the bottom 30% of the API rankings as agreed in the 2004 settlement of the *Williams v. California* lawsuit.

In addition, the state settled with the California Teachers Association (CTA), which sued the state for not meeting its financial obligations under Proposition 98 in its 2004–05 state budget. The state has promised to restore almost \$3 billion to K–12 schools and community colleges over seven years. The appropriations begin with \$300 million in 2007–08 and about \$450 million for the subsequent six years.

figure 2 | Lawmakers support schools with one-time funds

For 2006–07 the state allocated about \$2.5 billion for one-time purposes. These one-time funds are part of what the state is using to meet past Proposition 98 obligations. The major programs include:	
Reimbursements for programs mandated but not funded by the state (\$927 million for past years; \$30 million for 2006–07)	\$957 million
Discretionary block grants (25% to districts; 75% to schools)	\$534 million
Block grants for art, music, and physical education supplies and equipment, and staff development	\$500 million
Instructional materials, which includes funds for libraries, educational technology, school gardens, and to aid students who have failed the high school exit exam	\$120.5 million
Facilities funds for specific purposes, such as preschool, career technical education, and charter schools	\$99 million
Teacher recruitment and support for low-performing schools, a home visit program (teachers visiting students), and a Mathematics Teacher Partnership Pilot Program	\$66.8 million
Instructional improvement for English learners, including a pilot project to identify best practices for teaching English learners	\$50 million
Support for district operations, such as fiscal solvency planning grants related to retiree health care benefits, CALPADS (data system), and K–12 High Speed Network support grants	\$23.5 million
Expansion of child wellness programs, such as Healthy Start, Early Mental Health initiative, and school breakfasts	\$18 million

DATA: 2006–07 BUDGET ACT AND OTHER LEGISLATION

EdSource 10/06

The funds for K–12 education are to pay for a new program—the Quality Education Investment Act (QEIA)—which targets schools in the bottom 20% of the API rankings. The money is to be used mainly for teacher professional development and reducing class sizes. The funds for community colleges are for career technical education programs and one-time expenditures for facilities, equipment, instructional materials, and state mandates.

California also settled a \$1.1 billion antitrust lawsuit the state had filed against Microsoft. Of that amount, \$400 million will go to schools to purchase hardware, software, technical support, and training for educators. To qualify, at least 40% of a school’s student population must be from low-income families.

The state projects that tough times are likely to return

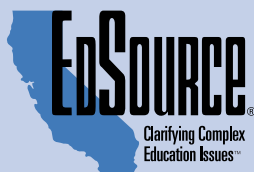
This year, leaders in Sacramento were able to pay off old debts to schools and community colleges, but policymakers met a large part of their obligations with one-time monies. State tax revenues are projected to grow slowly while

California Community Colleges also fared well

The 2006–07 state budget provides a total of almost \$9 billion for the community colleges, according to the Department of Finance, which is about 9% more than was provided in the 2005–06 Budget Act.

In addition, the colleges will get a greater portion of Proposition 98 dollars than they have received in the last several years. When Proposition 98 was enacted, the community colleges were slated to get 10.93% of the K–14 education budget annually, but the percentage has dipped to as low as 9.2%. In 2006–07 colleges will receive 10.7%, according to the Legislative Analyst’s Office.

expenditure commitments continue apace. The Legislative Analyst’s Office projects an operating deficit for the state of \$4.5 billion to \$5 billion in 2007–08 and 2008–09. Thus, school agencies must prepare for less positive financial news in coming years. ■■



EdSource is a not-for-profit 501(c)(3) organization established in California in 1977. Independent and impartial, EdSource strives to advance the common good by developing and widely distributing trustworthy, useful information that clarifies complex K–12 education issues and promotes thoughtful decisions about California’s public school system.

EdSource thanks the **Bill & Melinda Gates Foundation**, the **William and Flora Hewlett Foundation**, and the **James Irvine Foundation** for their investment in our core work.

© COPYRIGHT 2006 BY EdSource, INC.

Reprints permitted with credit to EdSource.