

## K THRU 12 EDUCATION

California's school districts, charter schools and county offices of education provide instruction and a variety of programs and support services for pre-Kindergarten through grade twelve (K-12) students. These programs are designed to prepare students with the skills necessary to pursue higher education, obtain fulfilling employment, achieve career goals, and develop productive citizens. Programs and services provided to more than six million students annually include standards-based instruction, special education, English learner support, career preparatory programs, child care and development, remedial instruction, and adult education.

Recognizing that K-12 education forms the foundation for California's prosperity and quality of life, the Governor established the Committee on Education Excellence (Committee) to review the system's successes and failures and make recommendations to fundamentally improve educational performance. The Committee focused on school finance (the distribution and adequacy of education funding); the functionality and effectiveness of school governance structures; teacher recruitment and training; and the preparation and retention of school administrators.

The Governor's Committee, along with a group established by the Legislature in conjunction with the State Superintendent of Public Instruction that reflects the entire educational continuum from pre-Kindergarten through higher education, called the P-16 committee, commissioned a variety of studies to shed light on the aforementioned topics. The studies, in and of themselves, were not intended to make recommendations on how to improve education but instead to provide factual information that could be used as a

basis for making recommendations on how to improve our education system.

In order to ensure that the public, the Legislature, the Administration and, in particular, parents, teachers, administrators, and leaders of business and industry have an opportunity to engage in a meaningful dialogue about the best approach for education reform, it is imperative that the committee's recommendations, along with the information provided in the studies, be fully vetted. Notwithstanding the current fiscal crisis, it is premature to make fundamental changes in the budget year before consensus can be reached on the major solutions.

Total funding for K-12 education is projected to be \$68.5 billion in 2008-09. Of this amount, \$65.1 billion is state, federal and local property tax funding accounted for in the State Budget. This proposed budget was constructed first by computing the workload budget funding level. From the workload budget, adjustments are made to reflect specific policy reductions, including budget balancing reductions. As a result of these budget balancing reductions, the budget reflects an \$865.1 million decrease from the revised 2007-08 total of \$66 billion.

Change Table K12-01 illustrates the major changes proposed to K-12 education spending in the Governor's Budget.

#### **WORKLOAD BUDGET**

- A workload budget reflects what a given program will cost next year under existing law and policy.
- Government Code Section 13308.05 defines workload budget as the budget year cost of currently authorized services, adjusted for changes in enrollment, caseload, or population, and other factors including inflation, one-time expenditures, federal and court-ordered mandates.

Change Table K12-01

**K thru 12 Education agency — changes by broad categories**

	2007-08			2008-09		
	General Fund	Other Funds	Positions	General Fund	Other Funds	Positions
<b>2007 budget total</b>	\$41,341,014	\$25,456,182	2,910.0	\$41,341,014	\$25,423,596	2,910.0
<b>Workload adjustments</b>						
School Facilities Funding Adjustments	-5	- ,88 ,461	—	-6	570,774	—
Local Property Tax Adjustments	634,015	-663,87	—	- 5 ,432	236,111	—
Debt Service Adjustments for Education	-95,475	—	—	202,804	-6	—
Enrollment/Caseload/Population	3,620	—	—	-86,495	—	—
Employee Compensation/Retirement	3,518	3,551	—	4,463	3,820	—
Statutory Cost-of-Living Adjustments	—	—	—	2,445,620	—	—
Expiring Programs or Positions	-40	-554	-7.	-40	- ,679	- .8
One-Time Cost Reductions	-9 ,500	-89	—	-9 ,852	-49 ,41	-5.9
Full-Year Cost of New Programs	—	—	0.5	2,137	—	1.7
Other Workload Adjustments	537,474	187,989	24.4	177,169	-66,721	35.9
Infrastructure Adjustment	—	56,527	—	—	51,556	—
<b>Totals, Workload adjustments</b>	<b>\$1,063,607</b>	<b>-\$ ,504,424</b>	<b>17.9</b>	<b>\$2,500,368</b>	<b>\$543,694</b>	<b>18.9</b>
<b>Policy adjustments</b>						
One-Time Mid-Year Reduction for K-12 District Apportionments	-60 ,	—	—	—	—	—
Reduce SBMA Contributions from 2.5% to 2.2%	—	—	—	-79,663	—	—
Reduce SBMA Contributions from 2.5% to 2.2%	—	—	—	6,269	—	—
Other Policy Adjustments	—	—	—	—	31,242	1.9
<b>Totals, Policy adjustments</b>	<b>-\$ 60 ,</b>	<b>\$0</b>	<b>—</b>	<b>-\$73,94</b>	<b>\$31,242</b>	<b>1.9</b>
<b>Total adjustments</b>	<b>\$703,607</b>	<b>-\$ ,504,424</b>	<b>17.9</b>	<b>\$2,426,974</b>	<b>\$574,936</b>	<b>20.8</b>
<b>budget Prior to Reductions</b>	<b>\$42,044,621</b>	<b>\$23,951,758</b>	<b>2,927.9</b>	<b>\$43,767,988</b>	<b>\$25,998,532</b>	<b>2,930.8</b>
<b>budget- balancing Reductions<sup>1/</sup></b>	<b>\$0</b>	<b>\$0</b>	<b>—</b>	<b>-\$4,57 ,51</b>	<b>-\$78 ,</b>	<b>—</b>
<b>Governor's budget</b>	<b>\$42,044,621</b>	<b>\$23,951,758</b>	<b>2,927.9</b>	<b>\$39,410,737</b>	<b>\$25,720,532</b>	<b>2,930.8</b>

<sup>1/</sup> These dollars and PYs are included in the General Government agency; therefore, not included in each agency's totals in the applicable Summary Schedules.

\* Dollars in Thousands

## K-12 SCHOOL SPENDING AND ATTENDANCE

### PER-PUPIL SPENDING

Total per-pupil expenditures from all sources are projected to be \$11,935 in 2007-08 and \$11,626 in 2008-09, including funds provided for prior year settle-up obligations (see Figure K12-01).

Figure K12-02 displays the revenue sources for schools.

### HOW SCHOOLS SPEND THEIR MONEY

Figure K12-03 displays expenditures reported by schools from their general funds, the various categories of expenditure and the share of total funding for each category.

### ATTENDANCE

As a result of a steady decline in birth rates throughout the 1990s, attendance growth in public schools is declining (see Figure K12-04). For the 2007-08, K-12 average daily attendance (ADA) is estimated to be 5,923,000, a decrease of 29,000 from the 2006-07 fiscal year. For 2008-09, the Administration estimates K-12 ADA will decrease by an additional 31,000 to 5,892,000.

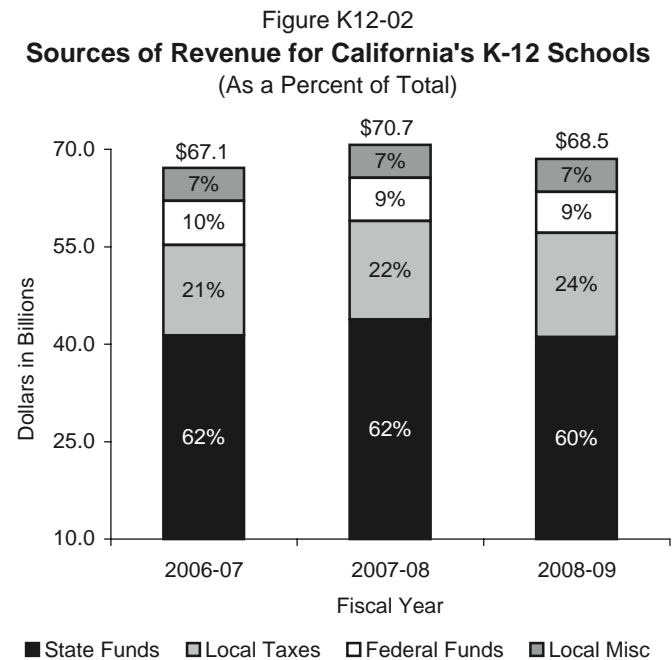
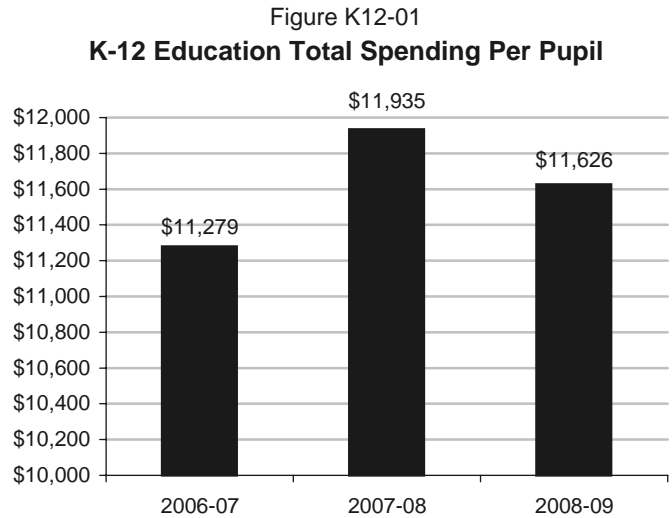
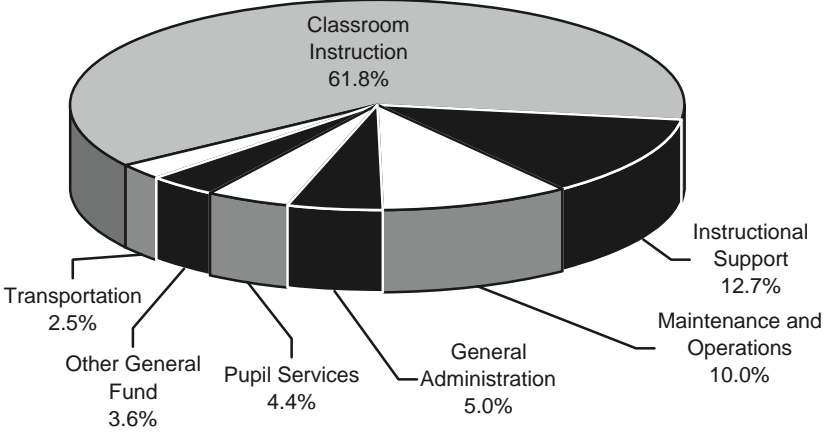


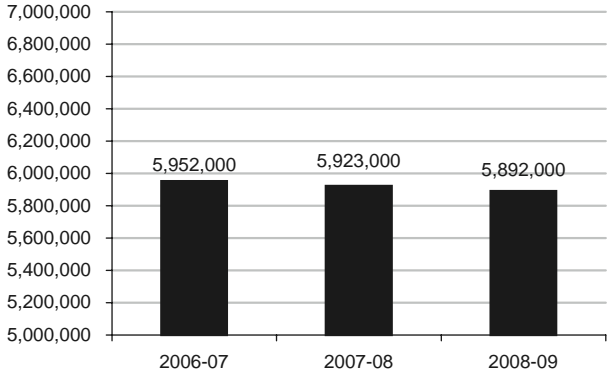
Figure K12-03  
**Where Schools Spend Their Money<sup>1</sup>**



Classroom Instruction includes general education, special education, teacher compensation, and special projects.  
 General Administration includes superintendent and board, district and other administration and centralized electronic data processing.  
 Instructional Support includes instructional, school site, and special projects administration.  
 Maintenance and Operations includes utilities, janitorial and groundskeeping staff, and routine repair and maintenance.  
 Pupil Services includes counselors, school psychologists, nurses, child welfare, and attendance staff.  
 Other General Fund includes spending for ancillary services, contracts with other agencies, and transfers to and from other district funds.

<sup>1</sup> Based on 2005-06 expenditure data reported by schools for their general purpose funding.

Figure K12-04  
**K-12 Average Daily Attendance**



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## PROPOSITION 98 GUARANTEE

A voter-approved constitutional amendment, Proposition 98, guarantees minimum funding levels for K-12 schools and community colleges. The guarantee, which went into effect in the 1988-89 fiscal year, determines funding levels according to a multitude of factors including the level of funding in 1986-87, General Fund revenues, per capita personal income and school attendance growth or decline.

Proposition 98 originally mandated funding at the greater of two calculations or Tests (Test 1 or Test 2). In 1990, Proposition 111 (SCA1) was adopted to allow for a third funding test in low revenue years. As a result, three calculations or tests determine funding for school districts and community colleges (K-14). The calculation or test that is used depends on how the economy and General Fund revenues grow from year to year.

For fiscal year 2006-07, Proposition 98 funding was \$55.1 billion, of which the General Fund share was \$41.4 billion. Local property taxes covered the balance. The 2007-08 Proposition 98 funding is estimated to increase to \$55.7 billion. The General Fund share in 2007-08 is \$40.7 billion which is \$1.4 billion lower than the level of Proposition 98 General Fund appropriations included in the 2007 Budget Act. However, recognizing a reduction of that magnitude would be very difficult for schools to absorb mid-year, the Budget proposes to reduce the 2007-08 Proposition 98 appropriations by \$400 million. This results in a Proposition 98 Guarantee of \$56.7 billion in 2007-08.

The Proposition 98 Guarantee for 2008-09 is projected to grow to \$59.7 billion of which \$43.6 billion would be from the General Fund. However, as part of the budget-balancing reductions proposed by the Administration, Proposition 98 General Fund will be reduced to \$39.6 billion. Thus, the Administration proposes to suspend the Proposition 98 Guarantee and provide \$4 billion, or 9.2 percent, less than the Guarantee would have required in 2008-09.

The totals above include funding for K-12, community colleges and other state agencies that serve students. K-12 Proposition 98 per-pupil expenditures in the Governor's Budget are \$8,458 in 2008-09, down from \$8,558 in 2007-08.

**PROPOSITION 98 TEST CALCULATIONS**

**Test 1 – Percent of General Fund Revenues:** Test 1 is based on a percentage or share of General Fund tax revenues. Historically, school districts and community colleges (K-14) received approximately 40 percent in the 1986-87 fiscal year. As a result of the recent shifts in property taxes to K-14 schools from cities, counties, and special districts, the current rate is approximately 40.96 percent.

**Test 2 – Adjustments Based on Statewide Income:** Test 2 is operative in years with normal to strong General Fund revenue growth. This calculation requires that school districts and community colleges receive at least the same amount of combined state aid and local tax dollars as they received in the prior year; adjusted for enrollment growth and growth in per capita personal income.

**Test 3 – Adjustment Based on Available Revenues:** Test 3 is used in low revenue years when General Fund revenues decline or grow slowly. During such years, the funding guarantee is adjusted according to available resources. A low revenue year is defined as one in which General Fund revenue growth per capita lags behind per capita personal income growth more than one-half percentage point. Test 3 was designed so that education is treated no worse in low revenue years than other segments of the state budget.

In years following a Test 3 funding level, the state is required to provide funding to restore what was not allocated the previous year. This is often referred to as a maintenance factor.

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## CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

The California State Teachers' Retirement System (CalSTRS) administers the Teachers' Retirement Fund, which is an employee benefit trust fund created to administer the State Teachers' Retirement Plan. The State Teachers' Retirement Plan is a defined benefit pension plan that provides retirement, disability, and survivor benefits for teachers and certain other employees of the California public school system. The Plan is comprised of three programs: the Defined Benefit Program, the Defined Benefit Supplement Program, and the Cash Balance Benefit Program. Within the Defined Benefit Program there is also a Supplemental Benefit Maintenance Account (SBMA), which provides annual supplemental payments in quarterly installments to retired teachers whose purchasing power has fallen below 80 percent of the purchasing power of an initial allowance.

Currently, the state makes annual General Fund contributions to the SBMA of 2.5 percent of teacher payroll for purchasing power protection. However, the 80 percent level of supplemental payments is not a vested benefit. This means that if the amount in the SBMA is not sufficient to bring purchasing power up to the 80 percent level, supplemental payments may have to be suspended or paid at a lower level. The Administration is proposing to fully vest the benefit at 80 percent purchasing power protection, which will provide increases to the future value of this program for retired teachers. An actuarial analysis performed in 2005 at the direction of the Department of Finance shows that the SBMA has more than enough money to provide the purchasing power protection for current and future retired teachers. As a result of the funded status of the SBMA, the state will be able to fully vest the purchasing power protection and reduce the state's contributions to the SBMA from 2.5 percent to 2.2 percent of salary consistent with the actuarial calculation. The savings from the reduced contribution equates to \$80 million in 2008-09. The state will fund the amount necessary to maintain the 80 percent purchasing power should the 2.2 percent contribution not be sufficient in future years. In addition, payments of 1.1 percent each will be made on November 1 and April 1, instead of July 1 of each fiscal year.

The state will make a payment of \$80 million in 2008-09 as the first of three payments towards the \$210 million in interest from the STRS lawsuit. Another payment of \$82 million will be made in 2009-10 and the remaining \$48 million will be paid in 2010-11.



## PROPOSED WORKLOAD BUDGET

Major workload adjustments for 2008-09 include the following:

- **Cost-of-Living Adjustment (COLA) Increases**—The workload budget includes a \$2.4 billion increase to fund a 4.94 percent statutory COLA: \$1.8 billion for revenue limits, \$168.7 million for special education, \$82.8 million for child care programs, \$62.3 million for class size reduction, \$52.9 million for the Targeted Instructional Improvement Grant, \$49.1 million for Economic Impact Aid and \$247.4 million for various categorical programs.
- **School Facilities Funding Adjustments**—The workload budget includes an \$839 million decrease in 2007-08 and a \$569 million increase in 2008-09 for school facilities. The decrease in 2007-08 is largely attributable to lower than anticipated allocations by the State Allocation Board of modernization funds from the 2006 School Facilities Bond. The increase in 2008-09 is the result of the anticipated allocation of remaining funds from the 1998, 2002, and 2004 bonds, which have lagged projections, as well as an increased estimate of allocations of new construction funds.
- **Adjustments for Average Daily Attendance (ADA)**—The workload budget includes a \$96.4 million net reduction in 2008-09 to reflect the decline in ADA. The majority of this amount consists of a \$142.4 million decrease in school district and county office of education revenue limit apportionments (general purpose funding for schools). Despite the overall decline in ADA, there are increases of \$46.1 million for the charter school block grant and \$18.8 million for adult education due to increased enrollment in charter schools and adult education. Due in part to the decline in attendance, there also is a \$6.2 million decrease in revenue limit apportionments for 2007-08.
- **Local Property Tax Adjustments**—The workload budget reflects a General Fund increase of \$640 million in school district and county office of education revenue limit apportionments in 2007-08 and a decrease of \$249.3 million in 2008-09, related to school district and county office of education property tax revenues. In general, increases in local property tax revenues reduce the amount of state General Fund costs for revenue limit apportionments.
- **Funding for Ongoing Programs**—The 2007 Budget Act appropriated \$555.6 million in one-time funding to support the ongoing costs of several programs. As a result, the workload budget includes ongoing General Fund increases of \$349.1 million for Home-to-School Transportation, \$115.5 million for the Deferred Maintenance program, \$73 million for the High Priority Schools Grant program and \$18 million for the Charter School Facilities Block Grant to fully fund these programs in 2008-09.

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## PROPOSED BUDGET BALANCING REDUCTIONS

Despite the fiscal challenge facing California, the K-12 education budget preserves funding for all core instructional programs, albeit at a slightly lower level, reflecting a 1.3 percent reduction in total funding compared to funding in 2007-08. The Governor's Budget approach thus spreads the impact over as many programs as possible to minimize the impact on each, while preserving as much funding as possible for classroom instruction.

- Total budget-balancing reductions for K-12 Education programs amount to \$4.4 billion in 2008-09. These reductions assume necessary statutory changes will be enacted by July 1, 2008.
- No major programs were exempted from the reductions. The only items not proposed for reduction were funding for the State Teachers' Retirement System, debt service, lease payments securing lease revenue bonds and mandate deferrals.
- The major reductions are described below:
  - \$2.6 billion in 2008-09 for school district and county office of education revenue limit apportionments. This will eliminate the 4.94 percent COLA and reduce existing revenue limit levels, thereby creating a 6.99 percent deficit factor.
  - \$357.9 million in 2008-09 for Special Education. No COLA will be provided and existing state funding for local schools' special education costs will be reduced. Schools may have to backfill most of this reduction as the program is federally mandated.
  - \$198.9 million in 2008-09 for Child Development programs. No COLA or growth will be provided for this program and, after accounting for normal program savings, approximately 8,000 existing slots will be reduced. Normal attrition rates in these programs should reduce the likelihood of a currently enrolled child losing their slot.
  - \$59.6 million in 2008-09 for Before and Afterschool Programs. The Administration will propose a ballot initiative to amend Proposition 49 to achieve these savings. The impact of this reduction would be minimal because a number of recent grant recipients have not implemented the program or have not achieved the enrollment levels initially anticipated.

- \$14.2 million in 2008-09 for Child Nutrition Programs. This reduction will cut the free and reduced price meal reimbursement rate by approximately \$0.02. However, the program received a \$0.06 per meal augmentation in 2007-08.
- \$1,095.7 million in 2008-09 for other K-12 categorical programs. COLA adjustments will not be provided and proportional funding rate reductions will be applied to programs such as Class Size Reduction, the Charter School Categorical Block Grant, Instructional Materials, Supplemental Instruction, Home-to-School Transportation, Supplemental School Counseling and various Career Technical Education programs.
- \$5.6 million in 2008-09 for Department of Education administration and program support. The Superintendent of Public Instruction will have discretion to allocate this reduction.
- \$9.2 million in 2008-09 for the Department of Education State Special Schools. This reduction is unallocated to provide maximum flexibility to the Superintendent and the State Special Schools.
- \$5.1 million in 2008-09 for the California State Library. This will reduce state support to local libraries and reduce state reimbursement of the costs for inter and intra-library book loan programs.
- In addition to the reductions above, the Administration proposes to change the K-14 program COLA factor from the State and Local Implicit Deflator to the Consumer Price Index for Wage Earners and Clerical Workers (CPI-W). This will

### **SCHOOL REVENUE LIMIT APPORTIONMENTS**

K-12 revenue limits provide the primary form of general purpose funding assistance to our public schools. These funds are discretionary and typically cover the cost of teacher and administrator salaries. Funding is distributed to schools based on average daily attendance.

The average revenue limit per pupil in the current year is estimated to be \$5,997 per ADA. A school district's revenue limit is funded from two sources, local property taxes and State General Fund. Local property taxes are allocated first and, if insufficient to fully fund a school's revenue limit apportionment, state General Funds pay the difference.

When State General Fund is insufficient to fully fund revenue limits statewide, a deficit factor is created to reduce funding to all schools by the same percentage. The deficit factor keeps track of reductions to school revenue limits which will be restored when sufficient funding is available in the future.

more appropriately reflect inflation for educational programs as the vast majority of educational expenditures are for wages and salaries, and the recent fluctuations in the State and Local Implicit Deflator do not appear to be related to costs which significantly affect schools. This will reduce the COLA from 4.94 percent to 3.65 percent. The savings that will result from this proposal are subsumed in the 10 percent reductions identified above.

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## **OTHER SPECIAL SESSION ISSUES**

### **PROPOSITION 98 APPROPRIATIONS**

The Governor has called a Special Session of the Legislature to immediately address the budget and cash shortfall. Included in the Special Session is a proposal to decrease K-14 Education program costs by \$400 million in 2007-08. Due primarily to a significant reduction in General Fund revenues anticipated for 2007-08, the Proposition 98 minimum guarantee is \$1.4 billion lower than the level of Proposition 98 appropriations included in the 2007 Budget Act. However, recognizing a reduction of that magnitude would be very difficult for schools to absorb mid-year, the Budget proposes to reduce the 2007-08 Proposition 98 appropriations by only \$400 million. This reduction will be split between school and community college apportionments, \$360 million and \$40 million, respectively. Due to the timing of the reductions, the Administration will work closely with the Legislature, Superintendent of Public Instruction, the Chancellor's office, school and community college districts, and other education stakeholders to identify savings in categorical programs which can be redirected to mitigate the reduction to school and community college apportionments. These program adjustments will be accomplished through separate legislation in the special session.

### **PROPOSITION 98 DEFERRALS**

Current law delays the K-12 June principal apportionment warrants from June to July. Current law also delays the June apportionments for community colleges to July. The total amount of these deferrals is \$1.3 billion. In order to increase cash reserves during months when cash balances are projected to be deficient, separate legislation is proposed for the special session to delay the deferral payments for K-14 from June to September. This will result in saving millions of dollars in interest payments by reducing the amount of funds the state will have to borrow for cash purposes.

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## PROGRAM ENHANCEMENTS AND OTHER BUDGET ADJUSTMENTS

Despite the need for significant General Fund reductions, to ensure a balanced budget, the Governor's Budget includes the following major program enhancement to improve school performance and the academic achievement of California's children.

### STUDENT AND TEACHER LONGITUDINAL DATA SYSTEMS

The California Longitudinal Pupil Achievement Data System (CalPADS) will enable tracking of individual student enrollment history and academic performance data over time. Chapter 1002, Statutes of 2002 (SB 1453) authorizes the development of a system to: (1) provide school districts and CDE access to data necessary to comply with federal No Child Left Behind reporting requirements, (2) provide a better means of evaluating educational progress and investments over time, (3) provide local schools information that can be used to improve pupil achievement, and (4) provide an efficient, flexible, and secure means of maintaining longitudinal statewide pupil-level data. The Governor's Budget includes \$8.1 million (\$2.2 million General Fund and \$5.9 million special and federal funds) to fully fund the recently approved contract to develop this system.

The California Longitudinal Teacher Integrated Data Education System (CalTIDES), authorized by Chapter 840, Statutes of 2006 (SB 1614), will serve as the central state repository for information regarding the teacher workforce for the purpose of developing and reviewing state policy, identifying workforce trends, and providing high-quality program evaluations of the effectiveness of teacher preparation and induction programs. The State Department of Education, in consultation with the Commission on Teacher Credentialing, is responsible for developing the system. The Governor's Budget includes \$1.8 million in one-time federal Title II funds for three limited-term staff for the Department of Education for system development workload, and \$400,000 for the Commission on Teacher Credentialing's workload associated with this effort.