

K-12 EDUCATION

Department of Education

California's public education system is administered at the state level by the California Department of Education, under the direction of the State Board of Education and the Superintendent of Public Instruction, for the education of approximately 6.2 million students from infancy to adulthood. The primary duties of the Superintendent and the Department of Education are to provide education policy direction to local school districts, and to work with the educational community to improve academic performance.

Major objectives of the department include working to: a) provide sufficient time for learning to occur and ensure that available time is used well; b) upgrade both the quality and quantity of the content of schooling; c) upgrade the quality of the teaching force through recruitment, pre-services, and in-service training; d) provide high quality instructional leadership for districts and schools; and e) promote safe and orderly learning environments for our schools.

At the local level, education is the responsibility of 983 school districts, 58 county office of education, and over 8,700 schools. More than 301,000 teachers are employed in public schools statewide.

Overall K-12 Funding

In 2003-04, \$56.2 billion will be spent from state, federal, and local property tax revenues for the State's public school pupils. In 2004-05, those expenditures are expected to total \$58.1 billion from such sources. These expenditures include teacher retirement costs, capital outlay, local miscellaneous and debt service funds, and bond interest and redemption shown in other parts of the Governor's Budget, for an overall increase of \$836.7 million between 2003-04 and 2004-05. This expenditure level results in an estimated total per-pupil expenditure from all sources of \$9,398 in fiscal year 2003-04 and \$9,614 in fiscal year 2004-05.

**TOTAL REVENUE FOR K-12 EDUCATION
(DOLLARS IN MILLIONS)**

Fund Sources	2003-04	2004-05	\$ Change	% Change
General Fund	\$29,556,900	\$30,357,400	800,500	2.7%
Local Property Taxes	13,885,000	14,923,600	1,038,600	7.5
Federal Funds	7,118,800	7,159,500	40,700	0.6
Lottery Funds	793,400	793,400	0	0.0
Other State Funds	90,100	85,900	-4,200	-4.7
Local Debt Service Taxes	1,195,500	1,195,500	0	0.0
Local Miscellaneous	3,543,100	3,543,100	0	0.0
Total Funds	56,182,800	58,058,400	1,875,600	3.3
Total Per-Pupil	9,398	9,614	216	2.3

The Governor's Budget proposes about \$1.9 billion in new K-12 expenditures in 2004-05. Funds for these proposals come from three sources. First, total K-12 Proposition 98 funding is proposed to grow by \$432 million in the budget year. Second, the budget proposes over \$300 million in specific program reductions. Third, the budget uses \$1.1 billion appropriated in the 2003-04 Budget Act for one-time expenditures as ongoing revenues in 2004-05.

Proposition 98

Proposition 98, known as the "The Classroom Instructional Improvement and Accountability Act," was passed by the voters in November 1988. The initiative amended the state constitution to provide for an annual minimum guaranteed level of funding for school and community college districts. This minimum annual funding guarantee is based on changes in statewide average daily attendance, changes in per capita General Fund revenues, and changes in per capita income from one year to the next.

The total Proposition 98 spending level for the budget year includes spending for K-12 education, community colleges, and certain education activities carried out by other agencies. The Governor's proposed 2004-05 State Budget includes a total of \$46.7 billion in Proposition 98 funds, an increase of \$769 million over the proposed revised

PRELIMINARY REVIEW 2004-2005

current year budget. This level is \$2 billion less than the current estimate of the Proposition 98 guarantee for 2004-05.

Total 2004-5 Proposition 98 support for K-12 education will increase 1.1 percent over the 2003 Budget Act level, as adjusted for changes in local revenues and average daily attendance growth. This level of funding supports K-12 Proposition 98 per-pupil expenditures of \$6,945 in 2004-05, up from \$6,940 in 2003-04 and \$6,588 in 2002-03.

The Governor's Budget includes a proposal to set a lower level of funding pursuant to a change in legislation, which would add this amount to the maintenance factor that is owed to schools in future years. Proposition 98 per-pupil funding increases by \$5, to a total funding level of \$6,945 per pupil.

Governor's Proposed Proposition 98 Allocation

(in millions)

	2003-04		Proposed 2003-04	Change From 2003-04	
	Budget Act	Mid-Year Revision ^a		\$ Change	% Change
K-12 Proposition 98					
State General Fund	\$27,645	\$27,846	\$27,233	-\$613	-2.2%
Local Property Tax Rev.	13,609	13,664	14,709	1,046	7.7
Subtotals ^b	\$41,254	\$41,510	\$41,942	\$432	1.0%
CCC Proposition 98					
State General Fund	\$2,244	\$2,244	\$2,414	\$170	7.6%
Local Property Tax Rev.	2,121	2,115	2,264	150	7.1
Subtotals ^b	\$4,365	\$4,359	\$4,679	\$320	7.3%
Total K-14 Proposition 98					
State General Fund	\$29,889	\$30,071	\$29,647	-\$443	-1.5%
Local Property Tax Rev.	15,730	15,779	16,974	1,1195	7.6
TOTALS^b	\$45,619	\$45,868	\$46,621	\$752	1.6%

^a These dollar amounts reflect appropriations made to date, or proposed by the Governor in the current year. In order to meet the minimum guarantee in 2002-03 and 2003-04, the Legislature would need to appropriate an additional \$518 million and \$429 million, respectively.

^b Totals may not add due to rounding. Total Proposition 98 amounts also include about \$93 million in funding that goes to other state agencies for educational purposes.

The figure above summarizes the budget's proposed Proposition 98 allocations for K-12 schools and community colleges. It shows a total of \$46.6 billion in 2004-05, an increase of 1.6 percent, over the Governor's current-year estimate. The low growth rate is due to the Governor's proposal to "rebase" or suspend the Proposition 98 minimum guarantee for 2004-05.

The Governor's proposed funding level is approximately \$2 billion less than would be required under the minimum guarantee, creating a \$2 billion maintenance factor that would have to be restored in future years. Suspension would likely result in annual savings of roughly \$2 billion for several years in the future, according to the Legislative Analyst's Office (LAO).

The Governor also proposes to fund Proposition 98 below the minimum guarantee in 2002-03 and 2003-04, but does not propose suspension in these years. Thus, for these years, the state would need to appropriate additional resources to "settle-up" to the minimum guarantee. However, the California Constitution does not specify a timeline by which the state must settle up. Under the Governor's proposal, the state would not begin paying the settle-up obligation of \$947 million until 2006-07. According to the LAO, this effectively creates a \$947 million loan from Proposition 98 to the General Fund until that time.

While the Governor's Budget proposes to increase total Proposition 98 spending, General Fund spending on Proposition 98 actually falls by \$443 million between 2003-04 and 2004-05. This occurs, according to the LAO, because local property tax (LPT) revenues increase by almost \$1.2 billion. The growth in LPT results from a combination of natural growth in school LPT, a proposal to transfer additional property tax revenues from local governments to school districts through the Education Revenue Augmentation Fund (ERAF), and transfers of ERAF revenues from school districts to local governments as part of the "triple flip" payment mechanism for the Economic Recovery Bond on the March 2, 2004 ballot.

◆ **How a Proposition 98 Suspension Would Work.** The Proposition 98 minimum guarantee is determined by the growth in K-12 attendance and growth in per capita personal income (referred to as the long-term Test 2 level). The Constitution allows the Legislature to appropriate less for K-14 education than this long-term Test 2 level under two circumstances: 1) the Legislature suspends the requirements of Proposition 98 or 2) per capita General Fund revenues grow slower than per capita personal income (known as a Test 3 level).

In either of these circumstances, the Constitution requires the state to restore in future years the difference between the actual level of spending and the long-term Test 2 level of spending. This difference is known as the maintenance factor. Generally, maintenance factor is restored during Test 2 years (when the growth of General Fund revenues exceeds growth in personal income).

The LAO estimates that under the Governor's proposal, the state would start the budget year with a \$2.5 billion maintenance factor obligation. Absent a suspension,

\$500 million of this amount would have been paid off in 2004-05, leaving a \$2 billion factor at the end of the budget year. The Governor proposes to suspend the minimum guarantee in 2004-05, providing \$2 billion less than Proposition 98 would require. Consequently, the proposed suspension would increase the year-end maintenance factor obligation to \$4 billion.

The Governor's proposal, beginning in 2005-06, would restore the maintenance factor consistent with existing law. Thus, this maintenance factor would take multiple years to restore, according to the LAO, and under the most recent LAO forecast would only be partially restored by 2008-09. As a result, the Governor's proposal would likely result in annual savings of \$2 billion for a number of years.

■ MAJOR PROVISIONS

The major provisions of the proposed K-12 budget include:

- ◆ **Budget Fully Funds Growth, COLA, and Some Program Expansions.** The one-time expenditures in the current year reduced the amount of deferred program costs from the level assumed in the 2002-03 Budget Act. Rather than further reduce the level of deferrals in 2004-05, the Governor's Budget proposes to direct these funds to ongoing program expenditures.

The budget proposes to spend the \$1.9 billion in available funds as follows:

- ◆ \$750 million for a COLA (1.84 percent) for revenue limits and most categorical programs.
- ◆ \$600 million to compensate for a 1 percent growth in the number of K-12 students.
- ◆ \$500 million for other funding adjustments including 1) categorical program increases such as instructional materials (\$188 million) and deferred maintenance (\$173 million), and 2) funds to equalize school district revenue limits (\$110 million).
- ◆ **\$2 Billion in Categorical Funding Transferred to Revenue Limits.** The Governor proposes to eliminate \$2 billion in funding for 22 categorical programs, and fold those funds into school district (and county office of education) revenue limits. Districts would receive the funds based on the distribution of the categorical funds for those 22 programs in 2003-04—that is, school districts would receive similar amounts of monies as if the programs were still in place. However, the districts would have full discretion over the use of the funds.

The Administration states that the choices as to which programs to shift to revenue limits were based on a review of program allocation information by Administration Staff, and incorporated information provided in the recent Bureau of State Audits report on categorical funding. They state that programs were not evaluated on their

merits; programs were selected for inclusion in revenue limits include: programs where funding allocations to specific districts has been stable for several years, the programs currently do not require the funding to be earned by providing instruction to specific students, most districts get the funding, and there are few legal requirements or federal mandates to perform specific services.

The Administration proposes retaining these programs in the Education Code with the exception of specific funding requirements, which would be repealed by language within the Education Trailer Bill. This would allow local education agencies to continue the programs or shift these funds to higher local priorities.

The categorical funding is being consolidated into five themes. They include School Support, Materials, Staff Development, Pupil Retention, and Smaller, Targeted Programs. The following programs fall under these themes:

- ◆ **School Support:** Home to School Transportation, School Improvement, Targeted Instructional Improvement Grant (Voluntary Program), Supplemental Grants;
- ◆ **Materials:** Instructional Materials Block Grant Program/ Incentive Grants, School Library Materials;
- ◆ **Staff Development:** Staff Development Day Buyout, Beginning Teacher Support and Assessment (BTSA), Intersegmental Staff Development, Bilingual Teacher Training, Mathematics and Reading Professional Development, Peer Assistance Review;
- ◆ **Pupil Retention:** Dropout Prevention, At-Risk Youth (LAUSD), Tenth Grade Counseling;
- ◆ **Smaller, Targeted Programs:** English Learners Student Assistance, Year Round Schools, Specialized Secondary Program Grants, Advanced Placement/ International Baccalaureate Programs, Civic Education, Pupil Residency Verification, Teacher Dismissal Apportionment.

K-12 Categorical Programs to Shift to Revenue Limits Block Grant		
Program Name	2003-04 Budget Amount	2004-05 Budget Amount
Advanced Placement Program	\$2,571	\$2,591
At-Risk Youth (LAUSD)	600	600
Beginning Teacher Support and Assessment	85,953	87,473
Bilingual Teacher Training	1,798	1,798
Civic Education	250	250

PRELIMINARY REVIEW 2004-2005

Dropout Prevention	21,885	21,885
English Learners Student Assistance	53,200	53,200
Program Name	2003-04 Budget Amount	2004-05 Budget Amount
Home to School Transportation	519,641	519,641
Instructional Materials Block Grant	175,000	363,000
Inter-segmental Staff Development	2,023	2,023
Mathematics and Reading Professional Development	31,728	31,728
Peer Assistance and Review	25,177	25,902
Pupil Residency Verification	162	162
School Improvement	387,190	396,055
School Library Materials	4,229	4,229
Specialized Secondary Program	5,136	5,136
Staff Development Day Buyout	229,667	235,695
Supplemental Grants	161,739	161,739
Targeted Instructional Improvement Grant	737,597	758,831
Teacher Dismissal Apportionment	40	40
Tenth Grade Counseling	11,443	11,443
Year Round Schools	84,147	84,147
Total Transferred to Revenue Limits		2,024,369

*Dollars in thousands.

Accompanying the categorical reform proposal will be trailer bill language requiring greater “sunshine” on the local budget process, and requirements for increased opportunities for community and school site participation in academic and budget decisions. In addition, school districts would be required to present local budgets that fully restore their reserves for economic uncertainty by 2005-06.

The Governor's Budget also provides growth and a cost of living adjustment (COLA) for categorical programs. The Budget provides \$89 million for statutory growth adjustments and \$115 million for COLAs for categorical programs, including Regional Occupational Centers and Programs and Adult Education. However, a COLA was not provided for all categorical programs.

The Governor's Budget contains programs that will retain separate funding, which include specific programs for services including class size reduction, child care and nutrition, services to special education and other programs that serve students with special needs, statewide accountability, legal requirements, targeted programs with earned ADA, programs being phased out, statewide services and oversight, and programs not supported by Proposition 98.

Funding is eliminated for seven smaller competitive grant programs, due to the sunset of the authorizing legislation or because they are proposed for suspension to provide more funding for general purposes. The funds shifted include any statutory growth and COLA adjustments for these programs.

■ **ADDITIONAL HIGHLIGHTS**

Additional highlights of the proposed K-12 budget include:

- ◆ **Average Daily Attendance Growth.** Attendance growth in public schools continues to be relatively low, primarily due to steady declines in birth rates beginning in the early 1990s. For the current year, total K-12 ADA is estimated to be 5,978,127. This reflects an increase of 72,412 ADA, or 1.23 percent, over the 2002-03 fiscal year and is 12,368 lower than the 2003-04 May Revision estimates. For the budget year, total K-12 ADA is estimated to be 6,039,207. This reflects ADA growth of 61,080 or 1.02 percent, over the current year.
- ◆ **2003-04 Apportionment Adjustments.** The Governor's Budget reflects an increase of \$294.4 million for revised estimates related to district and county office revenue limit apportionments. This amount reflects General Fund cost increases of \$261.4 million due to a higher-than-anticipated June principal apportionment deferral and \$53.7 million due to local property tax adjustments, which are offset by a decreased growth estimate of \$20.7 million reflecting adjustments for revised ADA growth, CalPERS offset and unemployment insurance estimates.
- ◆ **2004-05 Apportionments.** The Governor's Budget reflects an overall increase of \$2.8 billion in revenue limit funding, with major initiatives including a shift of over \$2 billion from categorical funding and \$110 million for equalization.
- ◆ **Apportionment Growth.** The Governor's Budget fully funds statutory enrollment growth for school district (\$264.8 million) and county office of education (\$15 million) revenue limit apportionments, and special education (\$37.4 million).

- ◆ **CalPERS.** An increase of \$106 million to fully fund the California Public Employees Retirement System school employer contribution rate.
- ◆ **Charter Schools.** Shifts charter school categorical block grant funds to charter school general purpose entitlements (\$21.9 million) and the Economic Impact Aid (EIA) program (\$14.5 million). An increase of \$24.5 million in total funding is also proposed to mirror the per-student funding for the programs in the Charter Categorical Block Grant. The Economic Impact Aid portion of the former block grant is added to the EIA with a distinct allocation for charter schools.
- ◆ **Deferral.** A deferral of \$517.9 million and \$448.4 million for 2002-03 and 2003-04, respectively for payment to retire the outstanding debts to the schools. These funds appropriated for the settle-up will be designated for one-time expenses in future budgets.
- ◆ **Deferred Maintenance.** An increase of \$173.3 million to fully fund the State Deferred Maintenance Program at \$250.3 million.
- ◆ **Educational Revenue Augmentation Fund (ERAF) Increase.** During the State budget crises in 1992-93 and 1993-94, a series of measures were enacted requiring local governments (counties, cities, special districts, and redevelopment agencies) to shift a portion of the property taxes that they receive to the ERAF that was created in each county for allocation to school districts, county offices of education, and community college districts. Any property tax revenue growth from year to year is distributed among the local agencies and the county ERAF. Because the state uses the ERAF to support Proposition 98 requirements for schools and community colleges, any growth in the ERAF on an annual basis reduces the State's General Fund Proposition 98 obligation.
- ◆ In 2003-04, local governments' vehicle license fee revenues were reduced by \$1.3 billion due to lag time necessary to implement higher fees when the offset was eliminated on June 20, 2003. Chapter 231, Statutes of 2003, provided that this "gap" in funding would be repaid to local government in 2006-07.
- ◆ In response to the State's fiscal constraints, the Governor's Budget proposes to continue this gap level of reduction (\$1.3 billion) to local governments in the form of an increased ERAF shifts beginning in 2004-05. Local governments would shift approximately \$1.3 billion of property tax revenues to the ERAF in order to decrease the State's General Fund Proposition 98 obligation. The Administration has stated that details of the shift proposal will be forthcoming, but will adhere to the structure and methodology of the two prior shifts.
- ◆ **Equalization.** An amount of \$110 million for school district revenue limit equalization to address the general-purpose funding levels. This equalization adjustment is proposed to apply to the revenue limits in place prior to the proposed shift of categorical funding.

- ◆ **High Priority Schools Grants Program.** An amount of \$208.6 million, including federal funds, for High Priority Schools Grants Program for the third year of funding to provide up to \$400 per pupil to the lowest-performing schools in the state to improve academic performance.
- ◆ **Immediate Intervention/ Underperforming Schools Program.** A continuation of \$77.4 million, including federal funds, for the Immediate Intervention/ Underperforming Schools Program (II/USP) for the third year of implementation funding for schools that made significant progress but did not reach their growth targets.
- ◆ **Instructional Materials.** An increase of \$185 million to fund the Instructional Materials Block Grant to provide for the purchase of 2002 English Language Arts and History and Social Science materials. The Governor's Budget intends these fund to remain as a separate categorical program to provide incentives for early purchase of newly adopted standards-aligned materials. The existing funding of \$175 million will be shifted to revenue limits.
- ◆ **Internet Access.** The Governor's Budget provides \$20.2 million to county offices of education to provide high-speed internet access for schools.
- ◆ **Principal Training.** The Governor's Budget provides \$5 million for the fourth year of the Principal Training Program. This program will provide 15,000 principals and vice-principals with training in instructional standards and effective school management techniques. Including the 2004-05 funding, sufficient funding will have been provided to train approximately 9,170 participants.
- ◆ **Proposition 98 Reversion Account.** One-time Proposition 98 Reversion Account uses totaling \$199.6 million are proposed as follows in the Governor's Budget:
 - ◆ \$98.1 million to restore the deferred funding for the Targeted Instructional Improvement Grant program to funding in the year districts incur the costs.
 - ◆ \$46.3 million to partially restore deferred funding for the School Safety Program.
 - ◆ \$32.7 million to be reserved for court awards and settlements.
 - ◆ \$15 million toward Stage 3 Childcare funding needs.
 - ◆ \$6.7 million for a 2001-02 shortfall in funding for the K-3 Class Size Reduction Program.
 - ◆ \$652,000 for a shortfall in 2002-03 child nutrition funding.

- ◆ **Pupil Testing.** An amount of \$105.6 million, including federal funds, for various statewide pupil testing. The assessments funded include:
 - ◆ Standardized Testing and Reporting (STAR) Exam-- \$65.5 million;
 - ◆ High School Exit Exam (HSEE)-- \$21.2 million;
 - ◆ California English Language Development Test (CELDT)-- \$18.8 million.
- ◆ **Special Education.** An increase of \$9.3 million General Fund to provide adjustments under the special education formula, which includes increases of \$70 million for a 1.84% COLA, and \$37.4 million for growth. The Governor's Budget also reflects a local property tax increase of \$23.6 million and the use of an additional \$74.5 million in increased federal funds anticipated in the budget year as part of the statutory offset to the General Fund authorized by AB 602.
- ◆ **State Department of Education.** SDE administers both State and federal education programs and operates the State Special Schools and Diagnostic Centers. The Governor's Budget provides \$112.8 million General Fund, \$172.1 million in other funds and 2,487.6 personnel years for state operations in 2004-05. Significant federal funds increases include \$1.1 million in 2003-04 and \$688,000 in 2004-05 for work towards a longitudinal student database consistent with federal requirements; \$932,000 in 2003-04 and \$558,000 in 2004-05 for federal child nutrition reporting activities; and \$2 million in 2004-05 for child care fraud investigation.
- ◆ **Suspend Program Funding and Reflect Sunsetting Programs.** \$32.6 million in savings is estimated to be achieved by eliminating funding for the following competitive grant programs. The funding provided by this is used to increase general purpose funding.

Sunset

- ◆ Academic Improvement and Achievement Act (\$5 million),
- ◆ Charter School Facilities Grant (\$7.7 million),
- ◆ Early Intervention for School Success (\$2.2 million),

Suspend

- ◆ Local Arts Education Partnership (\$6 million),
- ◆ School to Career (\$1.7 million),
- ◆ Healthy Start (\$2 million),

Eliminate

- ◆ Teacher Credentialing Pre-Internship (\$8 million).
- ◆ **Unemployment Insurance.** The Governor's Budget fully funds an estimated \$136 million increase in local education agency Unemployment Insurance (UI) reimbursements. This increase is attributable to a more than doubling of the UI rate, due to increased benefit amounts and longer eligibility periods coupled with local staffing reductions.