

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 as 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.

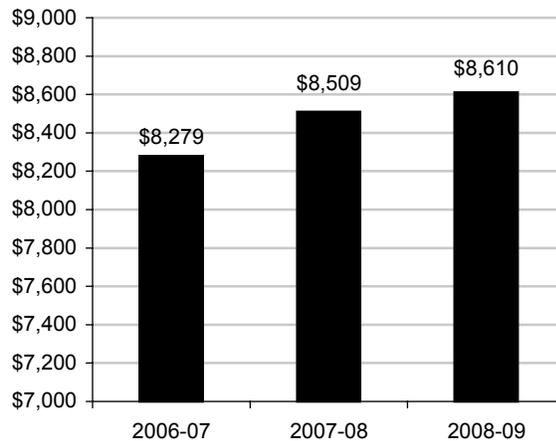
Due to the state's budget shortfall, the Governor's Budget proposed suspension of the minimum Proposition 98 Guarantee and no cost-of-living increases for schools.

The Governor's May Revision proposes \$1.8 billion General Fund in additional funding for K-12 education and community colleges to fully fund the minimum Proposition 98 Guarantee in 2008-09. Total Proposition 98 funding for K-14 education programs will increase year over year by \$193 million. With this additional investment, K-12 Proposition 98 per-pupil funding in the May Revision are \$8,610 in 2008-09, up from \$8,509 in 2007-08 (see Figure K12-01).

CHANGE IN TOTAL K-12 FUNDING

- 2007-08 \$12 million
- 2008-09 \$1,470 million

Figure K12-01
**K-12 Proposition 98 Funding
 Per Pupil**

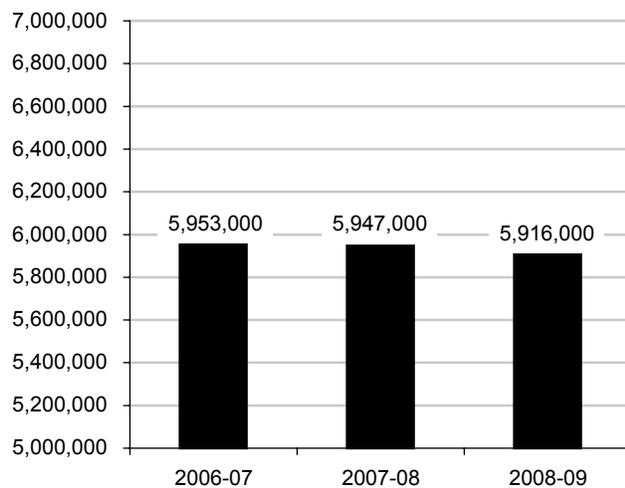


The May Revision to the Governor’s Budget projects total revenue for K-12 education programs in 2008-09 to be \$71 billion (\$41.7 billion General Fund). Of this amount, \$67 billion is state, federal and local property tax funding accounted for in the State Budget. This reflects an increase of \$1.5 billion (\$1.7 billion General Fund) over the Governor’s Budget. More notable funding changes are described below.

ATTENDANCE

As a result of a steady decline in birth rates throughout the 1990s, attendance growth in public schools is declining (see Figure K12-02). For the 2007-08, K-12 average daily attendance (ADA) is estimated to be 5,947,000, a decrease of 6,400 from the 2006-07 fiscal year. For 2008-09, the Administration estimates K-12 ADA will decrease by an additional 31,000 to

Figure K12-02
K-12 Average Daily Attendance



5,916,000. However, both of these projections are higher than the Governor's Budget ADA estimates of 5,923,000 for 2007-08 and 5,892,000 for 2008-09, reflecting increases of 24,000 and 23,000, respectively.

PER-PUPIL SPENDING

Total per-pupil expenditures from all sources are projected to be \$11,997 in 2007-08 and \$12,000 in 2008-09, including funds provided for prior year settle-up obligations. This is an indicator of the relative level of spending in California for support of K-12 education programs and not the actual level of funding allocated to each school for a pupil.

MAJOR WORKLOAD ADJUSTMENTS

Major workload adjustments include the following:

- **ADA**—The May Revision proposes an \$85.3 million net increase in 2008-09 to reflect the increase in ADA from the Governor's Budget projection. The majority of this amount consists of a \$92.6 million increase in school district and county office of education revenue limit apportionments (general purpose funding for schools) partially offset by \$7.3 million in reductions to categorical programs. Due to an increase in the attendance estimate for 2007-08, there also is a \$50.5 million increase in revenue limit apportionments included in the May Revision for that year.
- **Local Property Tax Adjustments**—The May Revision reflects General Fund increases of \$179.1 million in school district and county office of education revenue limit and special education apportionments in 2007-08 and \$521.3 million in 2008-09, related to school district and county office of education property tax revenues. In general, decreases in local property tax revenues increase the amount of state General Fund costs for revenue limit apportionments.
- **School District Revenue Limits** —\$780 million in workload adjustments for 2008-09 school district revenue limits are included in the figures above related to ADA and Property Tax Adjustments. These adjustments include a \$142 million increase related to higher ADA, a \$519.4 million increase related to lower estimates of property taxes, a \$93.4 million increase to reflect a six-fold increase in unemployment insurance rates, and a \$25.3 million increase for adjustments in PERS contribution rates. The May Revision also reflects workload increases for 2007-08 totaling \$218.3 million including a \$34.6 million net increase related higher ADA, which is significantly offset by lower projections of declining enrollment cost, as well as an increase of \$183.7 million for lower than expected local property tax revenues.

PROPOSITION 98 GUARANTEE

The 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 (See Figure K12-03).

For fiscal year 2006-07, the Proposition 98 Guarantee was \$55.2 billion, of which the General Fund share was \$41.4 billion. Local property taxes covered the balance.

At the time of the Governor’s Budget, 2007-08 Proposition 98 appropriations exceeded the minimum guarantee. During the Special Session called by the Governor to address the budget shortfall, the Administration and the Legislature reduced 2007 Budget Act appropriations by \$506.8 million by reducing programs that were not projected to fully expend their appropriations and by replacing ongoing funding with one-time savings from prior year appropriations. As a result of these actions, Proposition 98 General Fund appropriations for 2007-08 are now \$41.8 billion, which is \$802.1 million higher than

Figure K12-03

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 utilized 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.

the minimum Proposition 98 Guarantee. Total Proposition 98 funding for 2007-08 is \$56.6 billion.

The Proposition 98 Guarantee for 2008-09 is projected to grow to \$56.8 billion of which \$41.4 billion would be from the General Fund. As part of the budget-balancing reductions, the Governor's Budget proposed to suspend Proposition 98 and reduce Proposition 98 General Fund to \$39.6 billion. However, consistent with the priority the Administration has placed on education funding and its continuing efforts to improve the state's education system, the May Revision proposes to restore \$1.8 billion General Fund thereby increasing Proposition 98 General Fund in 2008-09 to the minimum Proposition 98 Guarantee level, with no suspension.

ADJUSTMENTS TO THE BUDGET BALANCING REDUCTIONS

PUBLIC TRANSPORTATION ACCOUNT FUNDING FOR HOME TO SCHOOL TRANSPORTATION

In the Legislative Special Session called to address the budget shortfall, legislation was adopted which authorized up to \$409 million in Proposition 98 General Fund expenditures for the Home-to-School Transportation Program for the 2007-08 fiscal year to be reimbursed from the Public Transportation Account (PTA). Similarly, the May Revision proposes to achieve additional General Fund savings for the 2008-09 fiscal year by adding language to the budget to authorize up to \$592.9 million from the PTA to be used to reimburse the General Fund for the budgeted cost of the Home to School Transportation Program, including Special Education transportation.

SURPLUS RELOCATABLE CLASSROOM PROGRAM FUNDS

In prior years, the state has transferred rental income received from the State Relocatable Classroom Program that was not needed for the program to the General Fund. Subsequently, the State Allocation Board approved a plan to phase out the program since it was no longer meeting its original intent to temporarily assist districts with excessive enrollment growth and unforeseen classroom emergencies, and due to the general condition of the aging fleet of relocatable classrooms. The Office of Public School Construction has now indicated there is \$14 million in excess revenue from the program that is available. As a result, consistent with prior practice, the May Revision proposes to transfer this funding to the General Fund.

ADDITIONAL SAVINGS PROPOSALS COUPLED WITH FLEXIBILITY

DEFERRED MAINTENANCE

The May Revision proposes to shift \$222.6 million Proposition 98 General Fund from deferred maintenance as part of fully restoring the reduction proposed to Special Education. This leaves \$39.6 million for the deferred maintenance program which is proposed to be reserved for hardship projects. In addition, the May Revision provides \$100 million for the Emergency Repair Program established under the Williams settlement.

Coupled with the redirection, the Administration proposes to eliminate the local matching requirement for the deferred maintenance program for the 2008-09 fiscal year.

ADDITIONAL FLEXIBILITY OPTIONS

The May Revision proposes to reauthorize the flexibility provisions that were adopted in 2003-04 to provide greater flexibility for school districts to cope with a constrained budget environment and to help mitigate the need for reductions in workforce. Specifically, the proposals would:

- Reduce reserve requirements for purposes of determining “Negative” and “Qualified” budget status.
- Authorize districts to increase apportionments sufficient to ensure a 2 percent increase from restricted categorical sources.
- Reduce the required 3 percent annual contribution to the districts’ restricted reserve for routine maintenance to 2 percent.
- Increase current percentage caps on district transfer authority for AB 825 categorical block grants from 15/20 percent to 20/25 percent.
- Eliminate the local match requirement under the Deferred Maintenance Program.
- Allow districts to move state categorical program carryover or reserve funds from any prior year and from any program to the district’s unrestricted general fund, excluding those funds prohibited under federal or state law.

RESTORATION OF CRITICAL PROGRAMS

REVENUE LIMITS

The May Revision provides significant additional resources in general purpose funding by restoring \$841.1 million for school district revenue limits. Specifically, this funding represents the portion of the deficit factor proposed in the Governor's Budget that was in excess of the 2008-09 COLA, as adjusted for revised ADA. This funding is in addition to the \$780 million of workload adjustments detailed previously in the Major Workload Adjustments section, resulting in a total increase of \$1.6 billion in new general purpose funding.

Therefore, the remaining deficit results only from suspending the budget year COLA. Based on the Governor's Budget proposed statutory change to the K-12 COLA factor to the CPI-W index (4.40 percent), the school district revenue limit deficit is estimated to be 4.214 percent.

SPECIAL EDUCATION

The May Revision provides a Proposition 98 General Fund increase of \$234.1 million over the amount previously proposed in the Governor's Budget. These changes include adjustments for reinstating \$189.2 million previously proposed for reduction as a part of budget balancing solutions, and revised figures for local property tax and ADA growth. The proposal also meets the federal maintenance-of-effort requirement for special education programs.

STATE SPECIAL SCHOOLS

The May Revision includes an increase of \$5.1 million Proposition 98 General Fund to help the State Special Schools continue to provide high quality diagnostic services and instruction for students with special needs. The proposal also includes a \$1.2 million augmentation for Home-to-School Transportation costs, in addition to General Fund savings of \$4.1 million overall as a result of shifting these mass transit costs to the Public Transportation Account.

OTHER BUDGET ADJUSTMENTS

CHILD CARE

Subsidized child care services help low-income working families become self-sufficient, contribute to school readiness of younger children, and are essential to support work

participation of CalWORKs families. Services are provided through voucher programs, in which parents select the provider of choice, and through center-based programs that contract directly with the state.

The Governor's Budget provided \$2.48 billion for State Department of Education (SDE) administered child care programs, after necessary budget balancing reductions totaling \$198.9 million were identified. Total funding included \$252.1 million in one-time Proposition 98 sources and \$56.3 million in one-time federal sources to meet Stage 2 and Stage 3 caseload estimates at that time. This is consistent with past practices. Since the Governor's Budget, the following factors have affected child care funding needs, and result in a net increase in funding of \$45.4 million, for a total of \$2.5 billion, including an increase in ongoing Proposition 98 resources of \$41.9 million, for 2008-09:

- The Legislature acted in the Special Session to use a large share of the carryover sources anticipated to meet budget year costs of Stage 2 and 3 child care to help reduce the current year Proposition 98 Guarantee as part of larger budget solutions. Accounting for these actions and revised estimates, carryover sources were reduced by \$193 million. In addition, one-time and ongoing federal funds diminished by \$63.6 million. This resulted in a need for additional resources of \$256.6 million to backfill these losses.
- Caseload costs for Stage 2 and 3 have increased, requiring \$20 million in additional funding.
- A policy change is proposed to fully fund Stage 2 costs without a traditional federal Temporary Assistance for Needy Families (TANF) holdback from the full estimate in the Department of Social Services CalWORKs budget. This requires additional Proposition 98 resources of \$25.5 million and completes the policy change implemented last year to fund Stage 2 from Proposition 98. This also frees up TANF to fund CalWORKs, helps meet the TANF maintenance-of-effort requirement shortfall, and reduces pressure on the General Fund.
- Policy changes are also proposed to help reduce rapidly rising reimbursement rate cost pressure caused by the revised methodology for computing regional market rate limits that was implemented several years ago. This change will help preserve slots in the capped voucher-based Alternative Payment Program, as well as contain costs in voucher-based Stage 2 and Stage 3 programs, while enabling full funding of all caseload in this very constrained budget environment. Specifically, trailer bill revisions are proposed to bench market limits to the 75th percentile based on the new 2007 market survey beginning January 1, 2009, and to conduct the market

survey every two years instead of annually. These actions are fully consistent with federal requirements and provide an average rate limit increase effective January 2009. California's reimbursement rate structure would remain among the most generous in the nation. Conducting the market survey every two years will save several hundred thousand dollars annually, as well.

STUDENT AND TEACHER LONGITUDINAL DATA SYSTEMS

The May Revision continues to fully fund development of the California Longitudinal Pupil Achievement Data System (CalPADS) and California Longitudinal Teacher Integrated Data Education System (CalTIDES) systems. CalPADS will enable tracking of individual student enrollment history and academic performance data over time. CalTIDES 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. Total funding for these projects is \$10.3 million (\$2.2 million General Fund) in 2008-09.

The May Revision also includes language to authorize the California Technology Assistance Project to provide training for implementing CalPADS. The California Technology Assistance Project promotes the effective use of technology in teaching, learning and school administration. The project currently provides technical assistance to schools and districts based upon local needs in each of 11 regions in California. This proposal would provide necessary training to local education agencies for CalPADS implementation.

The Administration believes that the primary goal of any education data system should be to help improve academic achievement. The focus should be on enabling local education agencies to use the data directly to improve instruction expeditiously. The implementation of CalPADS and CalTIDES, along with assignment of individual student identifiers through the California School Information Services program, is an important first step in making data available for local education agencies. There also is an abundance of education data available in many other forms at all levels of government and in the private sector. Examples range from automated reporting systems, program evaluations, studies, articles, and more. The Administration believes it is necessary to fully implement CalPADS and CalTIDES and analyze the information that is currently available to schools from various sources to improve outcomes before efforts are made to expand these systems or plan new systems.

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. The 80 percent level of purchasing power is currently not a vested benefit. This means that if the amount in the SBMA is not sufficient to maintain payments keeping retired teachers benefits at the 80 percent level, the benefit may be reduced or employer contributions may be increased.

The Governor's Budget proposed to make the following changes to SBMA:

- Fully vest the SBMA benefit at 80 percent purchasing power protection.
- Reduce the state's contributions to the SBMA from 2.5 percent to 2.2 percent of salary.
- Delay the State's contribution from July 1 and split the contribution into two payments of 1.1 percent, made on November 1 and April 1 each year.
- Pay the \$210 million interest from the \$500 million STRS lawsuit in three installments beginning in 2008-09.

The May Revision will modify the Governor's Budget proposal as follows:

- Increase the benefit from 80 percent to 85 percent while retaining the existing policy where this benefit is not vested.
- Reduce the state's contribution from 2.5 percent to 2.25 percent of salary.
- General Fund savings of \$66 million in 2008-09 and \$16 million in 2009-10 from Governor's Budget.

- Contribute two payments of 1.125 percent each on November 1 and April 1 each year.
- Pay the interest from the STRS lawsuit in four equal payments of \$52.6 million beginning in 2009-10.

PROVIDER ACCOUNTING AND REPORTING INFORMATION SYSTEM

The May Revision includes \$285,000 in one-time federal funds in 2008-09 to rewrite the Provider Accounting and Reporting Information System (PARI\$). The PARI\$ is designed to manage SDE's child care agency contracts and payment processing functions.

The rewrite is necessary because the current system is outdated, difficult to maintain, and does not have the capability to share data with other SDE systems.

PERSONNEL MANAGEMENT ASSISTANCE TEAMS

The May Revision proposes that \$3 million in Proposition 98 General Fund be reappropriated to continue funding for the Personnel Management Assistance Teams authorized by Chapter 517, Statutes of 2006. These teams assist school districts establish and maintain effective personnel management, recruitment and hiring processes.

EMERGENCY REPAIR PROGRAM

The May Revision proposes another \$100 million transfer from the Proposition 98 Reversion Account to the Emergency Repair Account in satisfaction of the Williams settlement agreement. This increment of funding for the program will bring total transfers to \$392 million for the purpose of funding school facility emergency repair projects.

LOCAL EDUCATIONAL AGENCY CORRECTIVE ACTION ASSISTANCE

Consistent with actions taken by the State Board of Education to further the intentions of the federal No Child Left Behind Act, the May Revision proposes separate legislation that will appropriate \$45 million federal Title I Set Aside funds to assist local educational agencies in their efforts to improve the academic performance of their students and to meet their federal accountability measures.