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HOW DO CALIFORNIA SCHOOLS GET AND SPEND THEIR MONEY?

Local, state, and federal dollars support the education of 6.2 million students in California's K-12 public schools. Since 1978, California schools have relied on the state budget for the majority of their support, a significant change from prior years when most school funding came from local property tax revenues. State lawmakers made deep cuts to schools in recent years to close budget gaps brought about by the dramatic decline in revenues caused by the Great Recession. In 2008-09, for example, lawmakers reduced funding for K-12 education by \$7.2 billion, a 14.8 percent drop from the prior year. While federal dollars from the American Recovery and Reinvestment Act of 2009 and the Education Jobs Fund Act of 2010 helped mitigate cuts to state education spending, most of these one-time funds expired in 2011. In 2011-12, state spending for schools remained \$6.8 billion lower than in 2007-08. In response to state cuts to education spending, many school districts reduced the number of teachers they employ, causing class sizes to increase; cut their instructional days; and/or eliminated programs.

Most School Dollars Come From the State Budget

The majority of schools' dollars come from the state budget. In 2010-11, state dollars accounted for more than half (55.1 percent) of the \$56.4 billion in schools' revenues (Figure 1).¹ The majority of these funds were for general purposes, while the remainder supported specific K-12 programs, including class size reduction and child nutrition.² In 2010-11, local sources – primarily local property tax dollars – accounted for less than one-third (29.9 percent) of schools' revenues, and federal monies provided more than one out of eight school dollars (13.5 percent). Just 1.5 percent of schools' dollars came from state lottery revenue.³ California schools' reliance on the state budget for the majority of their support reflects the passage of Proposition 13 in 1978, which shifted most of the cost of public schools from the

local property tax roll to the state's General Fund (Figure 2). Prior to Proposition 13, local property taxes provided the largest share of California schools' revenue.

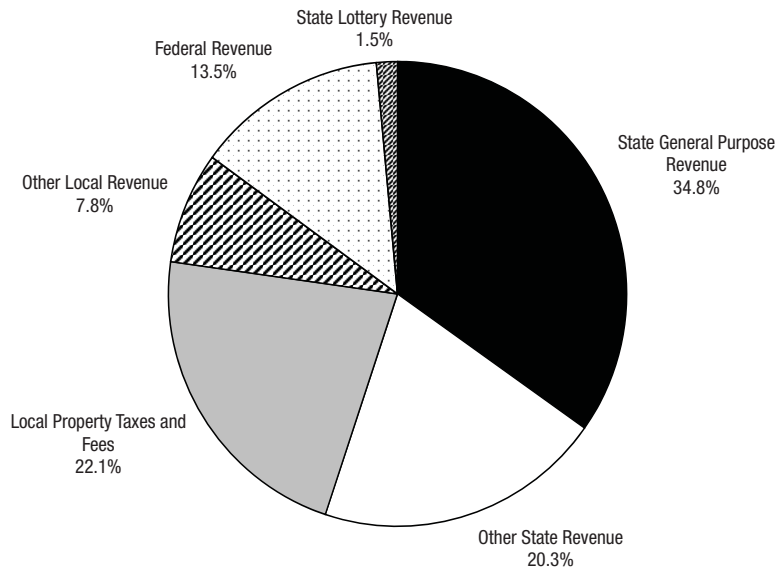
California Provides Schools With Two Types of Funds

The state provides two types of funding to California schools: restricted and unrestricted dollars. Dollars that are restricted – so-called “categorical aid” – are earmarked for specific programs, such as special education, home-to-school transportation, and child nutrition. Unrestricted dollars can be used for general educational purposes. The largest share of schools' general purpose dollars and the majority of dollars the state provides to schools come from so-called “revenue limits,” a funding formula established in 1973-74 to address disparities in school funding. The formula limited the revenue of each school district based on the amount it received per student in 1972-73 and included an inflation adjustment that provided larger increases for low-revenue districts.⁴ Funding for revenue limits comes from two sources: local property taxes and the state. If a school district's local property tax revenues are less than its revenue limit – as is true for the overwhelming majority of districts (86.8 percent) – the state makes up the difference.⁵ While revenue limits were designed to equalize per pupil funding among California school districts over time, large disparities in per pupil funding remain.

School Revenues and the Proposition 98 Guarantee

Proposition 98, passed by California voters in 1988, constitutionally guarantees a minimum level of funding for K-12

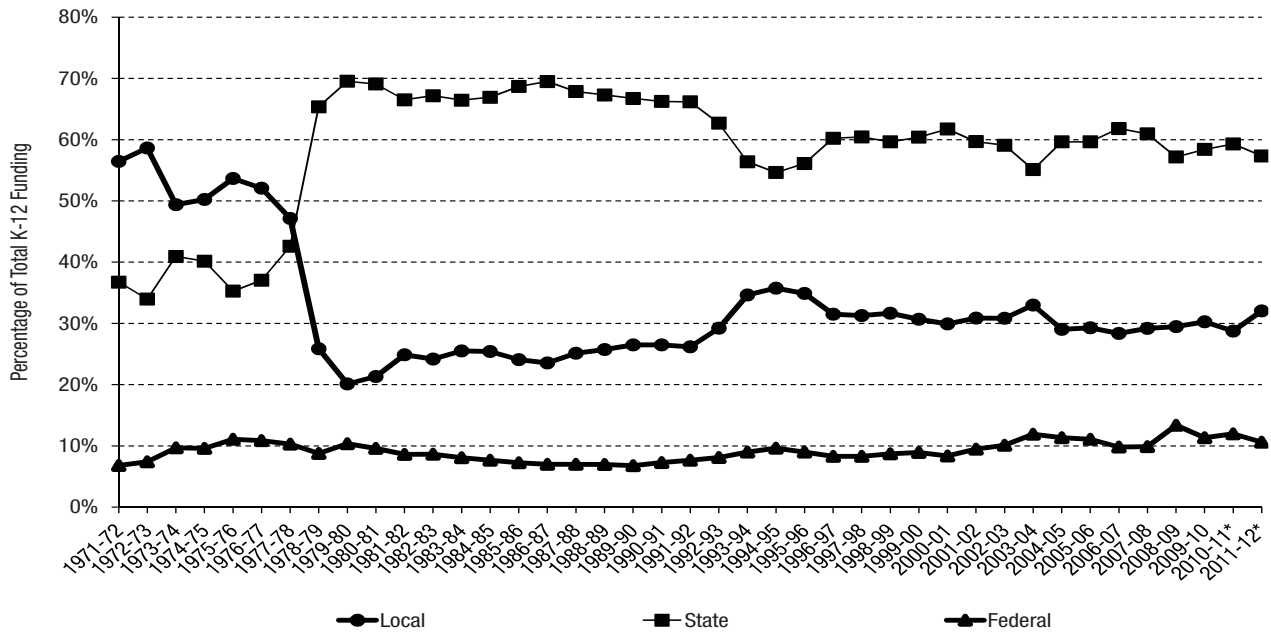
Figure 1: State Dollars Accounted for More Than Half of Schools' Revenues in 2010-11



2010-11 K-12 District Revenues = \$56.4 Billion

Note: Excludes capital project funds, debt service funds, and other financing sources not accounted for in school districts' general funds.
Source: California Department of Education

Figure 2: Since 1978-79, California's K-12 Schools Have Received a Larger Share of Their Funds From the State and a Smaller Share From Local Property Tax Revenues



* 2010-11 and 2011-12 estimated.
Source: National Education Association

schools and community colleges.⁶ Proposition 98 states that K-14 education is guaranteed a funding level that is the greater of:

- A fixed percentage of state General Fund revenues;⁷ or
- The amount schools and community colleges received in the prior year, adjusted for enrollment and changes in the state's economy.⁸

Revenue limit funds and most state categorical aid received by schools count toward the Proposition 98 guarantee. Several sources of school revenues do not count toward the Proposition 98 guarantee, including federal funds, state lottery dollars, and some local revenues, such as those raised by parcel taxes.

While Proposition 98 establishes a minimum funding level for California schools each year, the guarantee has often served as a ceiling as well as a floor. If the Legislature allocates more than the minimum amount required by Proposition 98, that amount becomes the base that is used to calculate future years' guarantees. As a result, there is a disincentive for the Legislature to allocate more than the minimum funding level required by Proposition 98 because it increases the state's funding obligation in future years. Moreover, because the Proposition 98 guarantee partly reflects the condition of the state's economy, it can decrease when the economy falters. In those years, the Legislature can reduce school spending and still fulfill its

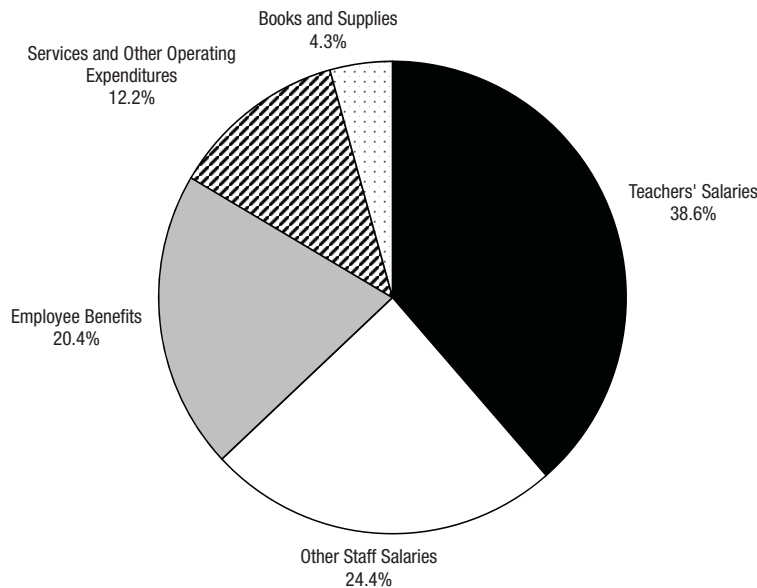
constitutional obligation to schools. In fact, during the tough economic times of the early 1990s, the early 2000s, and the Great Recession, the state reduced K-12 Proposition 98 spending per student.

How Do Schools Spend Their Funds?

California schools spend most of their education dollars on instruction and student services.⁹ In fact, California schools spend a larger share of these dollars on instruction and student services than do schools in 43 other states. In 2008-09, California schools spent 95 cents of each dollar on instruction and student services, ranking seventh in the nation. In contrast, they spent just 5 cents of each dollar on administration, food services, and other expenses.¹⁰

Schools spend a large share of their dollars on their workforce. More than four-fifths (83.5 percent) of statewide spending for schools supported the salaries and benefits of teachers and other staff in 2010-11 (Figure 3). Salaries for classroom teachers accounted for 38.6 percent of school spending; roughly one-quarter (24.4 percent) of school dollars paid for the salaries of other school staff, including counselors, principals, and office support staff; and 20.4 percent supported employee benefits, including retirement and health benefits. The remainder of school spending paid for day-to-day school operations (12.2 percent) and books and supplies (4.3 percent).

Figure 3: More Than Four-Fifths of Statewide Spending for Schools Supported Salaries and Benefits in 2010-11



Note: Excludes spending from capital project funds, debt service funds, and other sources not accounted for in school districts' general funds. "Other staff salaries" includes salaries of counselors, instructional aides, clerical staff, supervisors, and administrators. Percentages do not sum to 100 due to rounding.
Source: California Department of Education

Can Weighted Student Funding Improve California's Education Finance System?

Policymakers are currently debating whether the complexities and inequities of California's education finance system could be improved by "weighted student funding."¹¹ Generally speaking, weighted student funding would provide schools with a base level of funds per student and allocate additional dollars to schools that require more resources to meet the needs of certain students. Additional dollars would be provided to schools by assigning "weights" to certain factors that contribute to schools' costs. Weights could reflect, for example, the number of English language learners or students from low-income families. Weights could also reflect the additional dollars necessary to educate students at different grade levels or in regions with higher costs of living. By aligning state education spending more closely with school costs, weighted student funding could make the state's education finance system more equitable. Moreover, to the extent that weighted student funding were to reduce the number of sources of school dollars, it also could make state education spending more transparent.

For weighted student funding to be successful, California needs improved accountability systems. Currently, the state lacks systems to adequately track the progress of individual students over time, and revenue and expenditure data are not publicly available for individual schools. Consequently, policymakers would be unable to assess whether schools actually spend additional dollars provided through weighted student funding to improve services and educational outcomes for the students for whom those dollars are intended. Moreover, without better accountability systems, weighted student funding could create perverse incentives. For example, schools could choose not to reclassify English language learners as English proficient because by doing so, they would receive fewer dollars to support those students. In short, more robust data systems and accountability measures would be needed to ensure that dollars provided to support specific students produce desired outcomes.

Adequate funding for schools is also necessary for weighted student funding to be successful. Weighted student funding would allocate additional dollars for students with greater needs, but it would not necessarily guarantee schools sufficient resources to provide those students with a high-quality education. Even before lawmakers made deep cuts to school funding in recent years, research suggested that California would need to increase education spending substantially to enable more students to meet the state's high academic standards.¹² In other words, even if recent cuts to school funding are restored, the base level of funding per student provided by a weighted student funding formula would likely be insufficient to ensure that all of California's students have access to a quality education.

Jonathan Kaplan prepared this Policy Basics. The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the CBP is provided by foundation grants, subscriptions, and individual contributions. Please visit the CBP's website at www.cbp.org.

ENDNOTES

- ¹ 2010-11 is the most recent year for which school revenue and spending data are available. The analysis in this *Policy Basics* accounts for the ordinary operations of local education agencies, county offices of education, and 12 charter schools that report independently of their chartering school district or the county office of education. This analysis excludes special revenue funds; capital project funds; debt service funds, which include bond redemptions and interest; foundation funds, which account for gifts where there is a formal trust agreement with the donor; proprietary funds, which include funds such as cafeteria and warehouse funds; fiduciary funds, which include pension trust funds and retiree benefit funds; and other financing sources, such as interfund transfers.
- ² State general purpose revenue reflects revenue limit funds and charter school general purpose entitlements.
- ³ The California Department of Education provides detailed revenue and spending data at the district level; however, it does not provide the same information at the school site level. As a result, it is difficult to assess how revenue and spending vary among school sites within a school district or to compare school site revenues or expenditures for different districts.
- ⁴ Revenue limit funds are composed of two main parts: base revenue limits and "add-on" programs. The base revenue limit accounts for the largest share of revenue limit funds and pays for basic educational costs. Add-on programs include Beginning Teacher Salary Incentive and Meals for Needy Pupils.
- ⁵ School districts that raise all of their revenue limit funds from property tax revenues are known as "basic aid" districts and tend to be located in high-property-value, high-wealth districts. Basic aid districts are allowed to keep property tax revenues that exceed their respective revenue limits and also receive other state funds for specific programs.

- ⁶ The Proposition 98 guarantee establishes an overall funding level for programs included within the guarantee. It does not create an “entitlement” to funds for any particular program. The Legislature has the authority to allocate funding to individual programs through the budget. The Legislature also can suspend Proposition 98 for a single year by a two-thirds vote. In addition, the Legislature funds certain programs administered by the California Department of Education, including mental health and developmental service programs, within the Proposition 98 guarantee. For an explanation of the Proposition 98 guarantee, see California Budget Project, *School Finance in California and the Proposition 98 Guarantee* (April 2006).
- ⁷ The Proposition 98 guarantee is determined by a fixed percentage of state General Fund revenues in so-called “Test 1” years, which have been operative just once between 1988-89, when the guarantee was established, and 2010-11.
- ⁸ In most years when adjustments to the Proposition 98 guarantee are required, changes in the economy are measured by the percentage change in state per capita personal income for the preceding year. These so-called “Test 2” years differ from “Test 3” years, when changes in the economy are measured by the percentage change in per capita state General Fund revenues.
- ⁹ Student services include student transportation; school site administration, such as the supervision and management activities of principals and assistant principals at individual school sites; and operation and maintenance, including activities that keep students safe.
- ¹⁰ Data are the most recent available from the National Center for Education Statistics.
- ¹¹ For a discussion of the complexities and inequities of California’s education finance system, see Susanna Loeb, Anthony Bryk, and Eric Hanushek, *Getting Down to Facts: School Finance and Governance in California* (Institute for Research on Education Policy and Practice: March 2007).
- ¹² Two studies released as part of the “Getting Down to Facts” series suggested that California would need to increase spending to meet the state’s achievement standards. The first study found that California would need to increase spending to a level that was at least 40 percent above the 2003-04 spending level. See Jon Sonstelie, *Aligning School Finance With Academic Standards: A Weighted-Student Formula Based on a Survey of Practitioners* (Public Policy Institute of California: March 2007), p. 112. The second study found that California would need to increase spending to a level that was between 54 and 71 percent above the 2004-05 spending level to provide an adequate education to all students. See Jay Chambers, et al., *Efficiency and Adequacy in California School Finance: A Professional Judgment Approach* (American Institutes for Research: December 29, 2006), p. 44.