

How California's School Districts Spend Their Funds

K-12 education accounted for the largest share of California's budget – 39.5 percent of General Fund expenditures – in 2006-07. More than six out of every 10 dollars (62.1 percent) that California's schools receive come from the state and are spent by local school districts on everything from textbooks to teachers' salaries.¹ Spending patterns vary significantly among districts, and California differs from national trends in some key respects.

As part of his 2008-09 Proposed Budget, Governor Schwarzenegger reduces funding for California's school districts by \$4.4 billion. The cuts are proposed at the same time that a large body of foundation-supported research and a report by the Governor's Committee on Excellence in Education conclude that additional funds are required to provide California's students with access to a quality education. This *School Finance Facts* examines how California's schools spend their money and what the Governor's Proposed Budget would mean for public education.

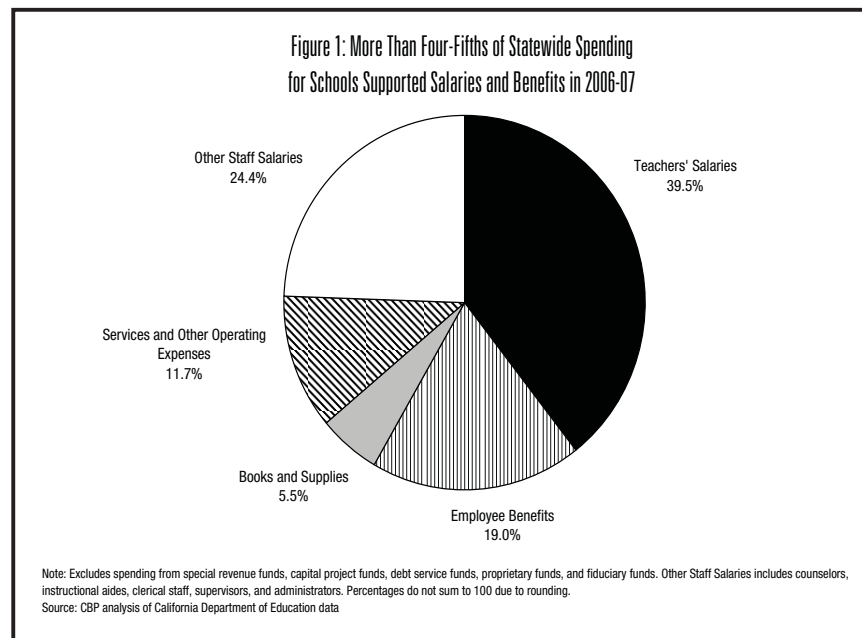
How Do School Districts Spend Their Funds?

More than four-fifths (82.9 percent) of statewide spending for schools goes to pay for the salaries and benefits of teachers and other staff (Figure 1).² Salaries for classroom teachers accounted for 39.5 percent of school expenditures; salaries for other school staff, including counselors, principals, and secretaries, accounted for 24.4 percent; and employee benefits, including retirement and health benefits, accounted for 19.0 percent.³

In 2004-05, California's schools allocated more than three-fourths (77.1 percent) of funds spent on instruction to general education programs – programs that serve the vast majority of students in traditional school settings – and 18.6 percent to special education (Figure 2).⁴ Districts divided the remaining instructional expenditures among bilingual and migrant education, other K-12 schools, and vocational education.⁵

The state budget currently allocates general purpose funding for schools based on student attendance. The budget also designates funding for specific programs – so-called categorical programs – based on a variety of

formulas that represent decades of legislation. These formulas often do not reflect changes in the distribution of the state's population, student demographics, or certain programs' underlying costs. Statewide, there are substantial variations in schools' per pupil spending on some programs. For example, the highest-spending district spent approximately \$16,000 more per student on special education than the lowest-spending district in 2004-05.⁶ Furthermore, special education accounted for 18.6 percent of schools' instructional expenditures statewide, while special education students accounted for just 10.8 percent of enrollment.⁷ In the same year, schools' bilingual and migrant education expenditures equaled 1.3 percent of instructional expenditures, while more than four out of 10 elementary and secondary students (42.0 percent) did not speak English as their primary language.⁸



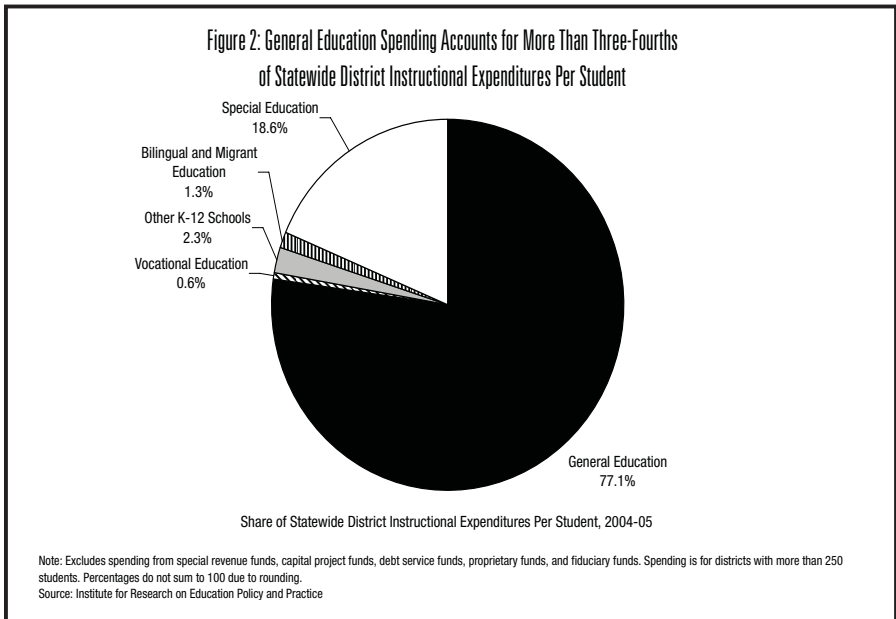
Differences in School District Spending

Spending patterns vary among California's school districts, according to a recent study that analyzed 2004-05 statewide expenditures.⁹ The study found that schools with large shares of students from low-income families spent \$7,845 per student, on average, compared to the \$7,061 per student spent by schools with small shares of these students, a difference of 11.1 percent.¹⁰ Bilingual education spending by the same districts also varied greatly. Districts with a large share of students from low-income families spent, on average, \$110 per student on bilingual education, more than four times the amount spent by districts with a small share of these students.¹¹

The study also found that spending on special education varies among school districts with different characteristics. For example, urban schools spent, on average, one out of every five instructional dollars per student (19.8 percent) on special education, whereas spending on special education in rural schools accounted for less than one out of every eight instructional dollars per student (12.2 percent).¹² Districts with large shares of black students spent, on average, 7.5 percent of per student instructional expenditures on students with severe disabilities, while those with small shares of black students spent 1.8 percent of per student instructional expenditures on similar students.¹³

The study also noted that "basic aid" districts spent 22.6 percent more per student, on average, than non-basic aid districts.¹⁴ Basic aid districts, which account for fewer than 10 percent of

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How Does California's Spending on Teachers Compare to Other States?

The average pay for California's teachers is the highest in the nation.¹⁵ California's relatively high salaries reflect the state's high cost of living and the relatively high earnings of California's workers.¹⁶ While California's teachers earn more, on average, than their counterparts in other states, recent research finds that California's teachers' weekly earnings average 19.3 percent less than those of occupations with similar educational and skill requirements.¹⁷ Because of California's low per pupil spending – California's schools spent less per pupil than 33 other states in 2006-07 – and high teacher salaries, California's classrooms have more students per teacher than the US as a whole. In 2006-07, California ranked 49th in the nation with respect to the number of students per teacher. California averaged 19.9 students for each teacher, while the US as a whole averaged 14.4 students per teacher.¹⁸

California's schools also employ relatively few school site and district administrators per student compared to the US as a whole. In 2005-06, there were 461.6 students per school site administrator in California, compared to 290.2 students per school site administrator in the US as a whole. In addition, California employs 4.9 school site administrators per school district administrator compared to 2.6 nationwide.¹⁹ As a result, fewer than one out of 20 dollars (4.7 percent) of California's school district expenditures supported the salaries of school site and district administrators in 2006-07.²⁰

Governor Proposes Large Cuts to Schools

On January 10, 2008, Governor Schwarzenegger estimated that California faced a \$14.5 billion gap between state revenues and expenditures in 2007-08 and 2008-09 combined. The Governor's 2008-09 Proposed Budget closed about two-thirds of the budget gap by reducing spending in most state programs and closed the remainder through accounting changes and increased borrowing. In February, the Legislative Analyst's Office (LAO) estimated that the budget gap had widened to \$16 billion, and when the Governor makes revisions to his proposed budget in mid-May, many expect the gap to widen further.²¹ The largest share of the Governor's proposed budget cuts (\$4.4 billion) apply to K-12 education. To achieve these reductions, the Governor proposes to suspend the Proposition 98 guarantee and to fund K-12 education by \$4 billion less than would be required by the guarantee.²²

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The Governor proposes to reduce:

- General purpose school funding by \$2.6 billion by eliminating the cost-of-living adjustment (COLA) for school districts and county offices of education.
- Special education funding by \$357.9 million. The Governor proposes to eliminate the COLA and reduce existing state funding for special education.
- Funding for a number of categorical programs by \$1.1 billion.²³ In order to achieve these savings, the Governor proposes to eliminate COLAs and reduce rate allocations.
- The state's contribution to the State Teachers' Retirement System for retiree purchasing power protection for savings of \$80 million. The Governor proposed – and the Legislature rejected – a similar proposal in 2007, which the LAO notes “may violate active and retired teachers' contractual rights and, therefore, be legally unworkable.”²⁴

In February, the Legislature reduced K-12 education spending and used unspent funds from prior years to achieve savings of \$475.7 million in 2007-08.²⁵

The Impact of the Governor's Proposed Budget Reductions Would Vary Among Districts

The Governor's Proposed Budget would result in deep funding cuts for many districts – including many large districts with sizable numbers of lower-income students – while reductions in funding for some districts would be less severe.²⁶ For example, funding for the Los Angeles Unified School District would be reduced by at least \$664 per student, while funding would be reduced by less than one-sixth of that amount (at least \$108 per student) for several districts, such as the Laguna Beach Unified School District in Orange County.

The Governor's Proposed Budget reduces funding for special education by \$357.9 million and states that schools may have to “backfill” the reductions since special education programs are federally mandated. When schools backfill reductions – replace dollars that have been cut – fewer dollars are available for other purposes. These proposed cuts would disproportionately affect urban schools and those with large black populations since they spend a greater share of district funds on services for special education students. Furthermore, proposed special education reductions would result in a loss of \$189.3 million in federal funds in 2009-10, magnifying the impact at the local level.²⁷

How Much Would an “Adequate” Education for All California Children Cost?

The findings of studies released last year as part of the foundation-supported “Getting Down to Facts” (GDTF) series estimated the funding needed for students to meet the state's high academic standards. Similarly, the Governor's Committee on Education Excellence, appointed by Governor Schwarzenegger in April 2005, recently released estimates of the funding necessary to implement its various recommendations. Both estimates document the need for a substantial increase in resources to support public education in order to ensure that all of California's students have access to a quality education.

The GDTF studies suggest that California would need to increase spending to a level that is 40 percent to 71 percent above recent levels to enable students to meet the state's achievement standards.²⁸ The Governor's Committee on Education Excellence estimates additional costs of \$10.6 billion, an increase of 23.5 percent over 2007-08 expenditures, to implement its recommendations.²⁹ Furthermore, the Governor's Committee recommends transitioning to a student-centered funding system in which initial funding levels are increased by 20 percent for English learners and by 40 percent for students from low-income families.³⁰

districts statewide, receive all of their general purpose funding from local property taxes. They are typically located in areas with higher median household incomes and tend to have fewer students who are black, Latino, or who come from low-income families.³¹ Basic aid districts spent, on average, more than twice the amount per pupil (107.2 percent) on the acquisition and construction of major capital facilities than non-basic aid districts.³²

The LAO's Alternative Budget for K-12 Education

In February, the LAO proposed an alternative to the Governor's Proposed Budget. The LAO's alternative budget proposes to suspend the Proposition 98 guarantee and to provide a level of funding estimated to be \$800 million below what would be required by the guarantee.³³

Although the LAO's alternative provides more funding for schools in 2008-09 than the Governor's Proposed Budget, it reduces 2007-08 spending to the minimum level required by the Proposition 98 guarantee. This proposed \$1.1 billion spending reduction in the current year would cut the 2008-09 Proposition 98 guarantee by the same amount. Similar to the Governor's Proposed Budget, the LAO's alternative budget does not provide COLAs for education programs in 2008-09. Instead of the Governor's “across-the-board” reductions to education programs, however, the LAO's alternative budget proposes \$167.7 million in targeted reductions to 11 programs. These programs include Physical Education Incentive Grants, adult education, and programs that direct monies to students from low-income families. Additionally, the LAO's alternative budget proposes to

reduce K-12 education funding by \$402 million in 2008-09 by suspending the Quality Education Investment Act (QEIA).³⁴ QEIA provides funds to low-performing schools.³⁵

The LAO's alternative recommends major changes to the system used to fund K-12 education.³⁶ The LAO suggests consolidating 43 individual K-12 education funding streams into four block grants. These block grants would not change the distribution or levels of funding that are currently provided, but would allow schools greater flexibility in how funds are used.³⁷ Although increased flexibility for cash-strapped schools may be desirable, critics argue that strong accountability measures would be required to ensure that funds allocated to help close persistent achievement gaps among the state's diverse populations reach the students they are intended to help.

Conclusion

The Governor's proposal to reduce state spending on K-12 education comes at the same time that his own Committee on Education Excellence suggests that a substantial increase in resources is needed to provide a quality education to California's students. The Governor's Committee recommends the largest share of these increased resources should be used to support English learners and students from low-income families. However, the Governor's Proposed Budget would result in a substantial reduction of funds for schools with large numbers of these students. Policymakers should explore alternative approaches that provide schools with the resources they need and that include strict accountability measures as part of any potential education funding reform to ensure that resources reach the students for whom they are intended. Without adequate resources and accountability measures, persistent achievement gaps among the state's diverse student population may grow even wider.

END NOTES

- 1 Although state funds are provided to K-12 school districts, this *School Finance Facts* uses the terms "schools" and "school districts" interchangeably.
- 2 CBP analysis of California Department of Education data. Excludes spending from special revenue funds; capital project funds; debt service funds, which include bond redemptions and interest; proprietary funds, which include funds such as cafeteria and warehouse funds; and fiduciary funds, which include pension trust funds and retiree benefit funds.
- 3 The California Department of Education provides detailed expenditure 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 spending varies among school sites within a school district or to compare school site expenditures for different districts.
- 4 Susanna Loeb, Jason Grissom, and Katharine Strunk, *District Dollars: Painting a Picture of Revenues and Expenditures in California's School Districts* (Institute for Research on Education Policy and Practice: December 2006), Appendices, Table A-7, downloaded from [http://irepp.stanford.edu/documents/GDF/STUDIES/05-Loeb-SACS/Loeb-SACS-Appendices\(3-07\).pdf](http://irepp.stanford.edu/documents/GDF/STUDIES/05-Loeb-SACS/Loeb-SACS-Appendices(3-07).pdf) on April 29, 2008. This *School Finance Facts* uses the term "general education programs" to describe "regular" K-12 education as defined in the Loeb, et al. study. Special education provides services to students with exceptional mental or physical needs who are assigned to individualized education programs.
- 5 Bilingual education and migrant education provide services to students from homes where English is not the primary language and to children of migrant agricultural workers and migratory fishermen. Other K-12 schools include alternative schools, continuation schools, independent study centers, opportunity schools, county community schools, community day schools, juvenile courts, and specialized secondary programs. Other K-12 schools provide services to students with special needs, including those who have been expelled from a school district or who are in juvenile hall, as well as students enrolled in advanced instructional programs in high-technology fields and the performing arts. Vocational education includes regional occupational centers and programs. Vocational education prepares students for employment by teaching skills in areas such as health, home economics, industrial arts, technology, and trades.
- 6 Susanna Loeb, Jason Grissom, and Katharine Strunk, *District Dollars: Painting a Picture of Revenues and Expenditures in California's School Districts* (Institute for Research on Education Policy and Practice: December 2006), p. 20.
- 7 Susanna Loeb, Jason Grissom, and Katharine Strunk, *District Dollars: Painting a Picture of Revenues and Expenditures in California's School Districts* (Institute for Research on Education Policy and Practice: December 2006), Appendices, Table A-7, downloaded from [http://irepp.stanford.edu/documents/GDF/STUDIES/05-Loeb-SACS/Loeb-SACS-Appendices\(3-07\).pdf](http://irepp.stanford.edu/documents/GDF/STUDIES/05-Loeb-SACS/Loeb-SACS-Appendices(3-07).pdf) on April 29, 2008 and California Department of Education, *Special Education Enrollment by Grade and Disability: Statewide Report*, downloaded from <http://dq.cde.ca.gov/dataquest/SpecEd/StateRpts/EnrGrdeDis.asp?cChoice=EnrGrDis1&cLevel=State&cYear=2004-05&ReptCycle=December> on April 7, 2008.
- 8 Susanna Loeb, Jason Grissom, and Katharine Strunk, *District Dollars: Painting a Picture of Revenues and Expenditures in California's School Districts* (Institute for Research on Education Policy and Practice: December 2006), Appendices, Table A-7, downloaded from [http://irepp.stanford.edu/documents/GDF/STUDIES/05-Loeb-SACS/Loeb-SACS-Appendices\(3-07\).pdf](http://irepp.stanford.edu/documents/GDF/STUDIES/05-Loeb-SACS/Loeb-SACS-Appendices(3-07).pdf) on April 29, 2008 and California Department of Education, *Number of English Language Learners by Language*, downloaded from <http://dq.cde.ca.gov/dataquest/LEPbyLang1.asp?cChoice=LepbyLang1&cYear=2004-05&cLevel=State&cTopic=LC&myTimeFrame=S&submit1=Submit> on April 7, 2008.
- 9 Susanna Loeb, Jason Grissom, and Katharine Strunk, *District Dollars: Painting a Picture of Revenues and Expenditures in California's School Districts* (Institute for Research on Education Policy and Practice: December 2006). The study analyzed districts with at least 250 students, which represent 99.6 percent of California's public K-12 students.
- 10 Susanna Loeb, Jason Grissom, and Katharine Strunk, *District Dollars: Painting a Picture of Revenues and Expenditures in California's School Districts* (Institute for Research on Education Policy and Practice: December 2006), p. 35. Districts with large shares of low-income students are defined as the 25 percent of districts with the largest shares of students enrolled in the free and reduced price lunch program. Districts with small shares of low-income students are defined as the 25 percent of districts with the smallest shares of students enrolled in the free and reduced price lunch program.
- 11 Susanna Loeb, Jason Grissom, and Katharine Strunk, *District Dollars: Painting a Picture of Revenues and Expenditures in California's School Districts* (Institute for Research on Education Policy and Practice: December 2006), Appendices, Table C10, downloaded from [http://irepp.stanford.edu/documents/GDF/STUDIES/05-Loeb-SACS/Loeb-SACS-Appendices\(3-07\).pdf](http://irepp.stanford.edu/documents/GDF/STUDIES/05-Loeb-SACS/Loeb-SACS-Appendices(3-07).pdf) on April 29, 2008.
- 12 Susanna Loeb, Jason Grissom, and Katharine Strunk, *District Dollars: Painting a Picture of Revenues and Expenditures in California's School Districts* (Institute for Research on Education Policy and Practice: December 2006), Appendices, Table C6, downloaded from [http://irepp.stanford.edu/documents/GDF/STUDIES/05-Loeb-SACS/Loeb-SACS-Appendices\(3-07\).pdf](http://irepp.stanford.edu/documents/GDF/STUDIES/05-Loeb-SACS/Loeb-SACS-Appendices(3-07).pdf) on April 29, 2008.
- 13 Susanna Loeb, Jason Grissom, and Katharine Strunk, *District Dollars: Painting a Picture of Revenues and Expenditures in California's School Districts* (Institute for Research on Education Policy and Practice: December 2006), Appendices, Table C8, downloaded from [http://irepp.stanford.edu/documents/GDF/STUDIES/05-Loeb-SACS/Loeb-SACS-Appendices\(3-07\).pdf](http://irepp.stanford.edu/documents/GDF/STUDIES/05-Loeb-SACS/Loeb-SACS-Appendices(3-07).pdf) on April 29, 2008. Districts with large shares of black students are the 25 percent of districts with the largest shares of black students. Districts with small shares of black students are the 25 percent of districts with the smallest shares of black students.
- 14 Susanna Loeb, Jason Grissom, and Katharine Strunk, *District Dollars: Painting a Picture of Revenues and Expenditures in California's School Districts* (Institute for Research on Education Policy and Practice: December 2006), p. 54. Following the 1976 California Supreme Court decision in *Serrano v. Priest*, California established a limit on the combined state and local revenues received by a school district for general purposes. Basic aid school districts receive at least this "revenue limit" in local property taxes and do not receive general purpose funds from the state. Basic aid districts are allowed to keep local property tax revenues in excess of the revenue limit and also receive other state funds for specific programs.
- 15 National Education Association, NEA Research, *Rankings and Estimates: Rankings of the States 2006 and Estimates of School Statistics 2007* (December 2007), p. 92. On average, California's classroom teachers earned \$63,640 per year in 2006-07.
- 16 US Bureau of Economic Analysis. In 2007, California's per capita earnings were \$32,178, compared to \$29,045 in the rest of the US.
- 17 Sylvia A. Allegretto, Sean P. Corcoran, and Lawrence Mishel, *The Teaching Penalty: Teacher Pay Losing Ground* (Washington, DC: Economic Policy Institute), p. 60.
- 18 National Education Association, NEA Research, *Rankings and Estimates: Rankings of the States 2006 and Estimates of School Statistics 2007* (December 2007), pp. 89 and 91.
- 19 CBP analysis of National Center for Education Statistics data.
- 20 CBP analysis of California Department of Education data. Excludes spending from special revenue funds; capital project funds; debt service funds, which include bond redemptions and interest; proprietary funds, which include funds such as cafeteria and warehouse funds; and fiduciary funds, which include pension trust funds and retiree benefit funds.
- 21 Legislative Analyst's Office, *The 2008-09 Budget: Perspectives and Issues* (February 2008), p. 3.
- 22 The Proposition 98 guarantee establishes a minimum level of funding for K-14 education each fiscal year; however, it can be suspended by a two-thirds vote of the Legislature. For an explanation of the Proposition 98 guarantee, see California Budget Project, *School Finance in California and the Proposition 98 Guarantee* (April 2006).
- 23 Categorical programs include class size reduction, instructional materials, and various career technical education programs.
- 24 Legislative Analyst's Office, *Major Features of the 2007 California Budget* (August 31, 2007), p. 18.
- 25 Assembly Budget Committee, *Subcommittee Report on Fiscal Emergency Special Session* (February 14, 2008), p. 12. The Legislature also delayed \$1.1 billion in payments to K-12 schools from July 2008 to September 2008 to address a potential shortfall in the state's cash reserves.
- 26 California Budget Project, *The Governor's Proposed Budget Would Make Deep Cuts in Funding for California's Public Schools* (Revised March 11, 2008).

²⁷ Legislative Analyst's Office, *Analysis of the 2008-09 Budget Bill* (February 2008), p. E-87. The federal Individuals with Disabilities Act requires states to fund special education at a level equal to or greater than that provided in the previous fiscal year or federal funding for special education will be reduced dollar for dollar in the following fiscal year.

²⁸ 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 and Jay Chambers, et al., *Efficiency and Adequacy in California School Finance: A Professional Judgment Approach* (American Institutes for Research: December 29, 2006), p. 44.

²⁹ Governor's Committee on Education Excellence, *Students First: Renewing Hope for California's Future* (November 2007), Appendix C, p. C-2.

³⁰ Governor's Committee on Education Excellence, *Students First: Renewing Hope for California's Future* (November 2007), Priority 2: Finance 5-22.

³¹ Susanna Loeb, Jason Grissom, and Katharine Strunk, *District Dollars: Painting a Picture of Revenues and Expenditures in California's School Districts* (Institute for Research on Education Policy and Practice: December 2006), pp. 53-54.

³² Susanna Loeb, Jason Grissom, and Katharine Strunk, *District Dollars: Painting a Picture of Revenues and Expenditures in California's School Districts* (Institute for Research on Education Policy and Practice: December 2006), p. 55. The analysis of basic aid district spending on capital outlay and facilities is based on total district spending from all funds.

³³ Legislative Analyst's Office, *Analysis of the 2008-09 Budget Bill* (February 2008), p. E-22.

³⁴ Legislative Analyst's Office, *Analysis of the 2008-09 Budget Bill* (February 2008), p. E-20.

³⁵ QEIA was created by the Legislature after the settlement of a lawsuit brought by education advocates who disputed the level of education funding that resulted from the suspension of Proposition 98 in 2004-05.

³⁶ Legislative Analyst's Office, *Analysis of the 2008-09 Budget Bill* (February 2008), pp. E-61 to E-75.

³⁷ Legislative Analyst's Office, *Analysis of the 2008-09 Budget Bill* (February 2008), pp. E-66.

Jonathan Kaplan prepared this School Finance Facts. Support for this School Finance Facts is provided by grants from The William and Flora Hewlett Foundation and the Walter and Elise Haas Fund. 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. Please visit the CBP's website at www.cbp.org.