

# SCHOOL FINANCE HIGHLIGHTS 2009–10

## THE IMPACT OF THE FISCAL CRISIS ON CALIFORNIA PUBLIC SCHOOLS

In fall 2008, the nation faced a historic economic crisis. No state government in the country was as severely shaken as California, where years of budget troubles preceded the national crisis. The situation worsened throughout 2009, and state leaders repeatedly acted to balance the state budget. And because K–12 education represents the single largest state expenditure here, California’s public schools were greatly affected.

### *Billions in funding cuts left many school districts reeling*

Policymakers repeatedly cut funding for K–12 schools as part of their overall budget solution, affecting funding for both 2008–09 and 2009–10. Doing so allowed the state to realize savings in the current year, and more importantly, to minimize spending obligations going forward. As they did this, officials reduced Proposition 98 spending to a minimum in accounting terms but provided some funding beyond the minimum. On the other hand, to help address the state’s cash flow problems, policymakers also delayed the release of some funds, which disrupted local agencies’ own cash flow and ability to plan.

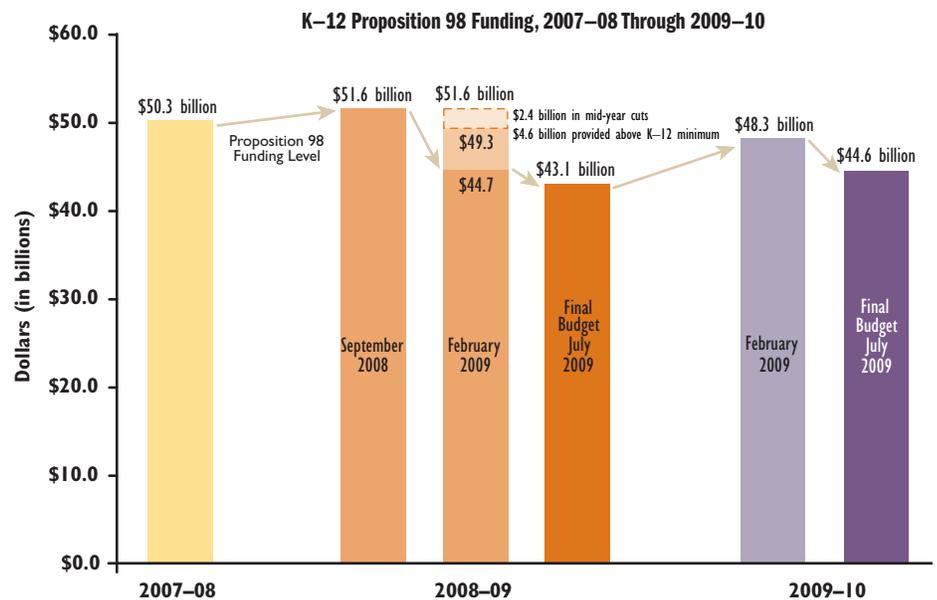
As Figure 1 shows, in 2007–08, the K–12 portion of Proposition 98 spending was \$50.3 billion. The initial 2008–09 budget increased that figure, but falling state revenues led policymakers to cut K–12 Proposition 98 spending to \$44.7 billion five months later. Even that level was unsustainable, and further cuts in July 2009 brought the amount to \$43.1 billion.

For 2009–10, the K–12 Proposition 98 funding level changed between the original February budget and the July revision. In February, the figure was estimated to rise to \$48.3 billion. However, between February

and July, state revenues continued to fall, which lowered the Proposition 98 minimum guarantee. Accordingly, the July budget provides about \$44.6 billion in K–12 Proposition 98 spending for 2009–10. (See Figure 1.)

To help local school agencies manage with less funding, state policymakers gave them substantial flexibility in how categorical funds are spent and in other areas, such as K–3 Class Size Reduction.

**figure 1 | State education funding fluctuated by billions within and between years**



Note: Due to rounding, the numbers in the third bar do not add up to the total of \$51.6 billion.

Proposition 98 sets a minimum funding guarantee for education. The money included comes from local property taxes and state funds raised primarily through income and sales taxes. State lawmakers first adopted the Proposition 98 funding level for 2008–09 in September 2008 and then revised it in February and July 2009. Similarly, they first set the Proposition 98 level for 2009–10 in February 2009 and then adjusted it the following July. More adjustments for 2009–10 are possible.

DATA: LEGISLATIVE ANALYST’S OFFICE (LAO), CALIFORNIA DEPARTMENT OF EDUCATION (CDE)

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*Changes in federal funds helped backfill a portion of the state cuts*

In a typical year, Proposition 98 accounts for about three-quarters of the total revenues for schools and some related programs, such as adult education and child care. Within that, the state General Fund portion makes up about 55% and local property taxes comprise about 20%.

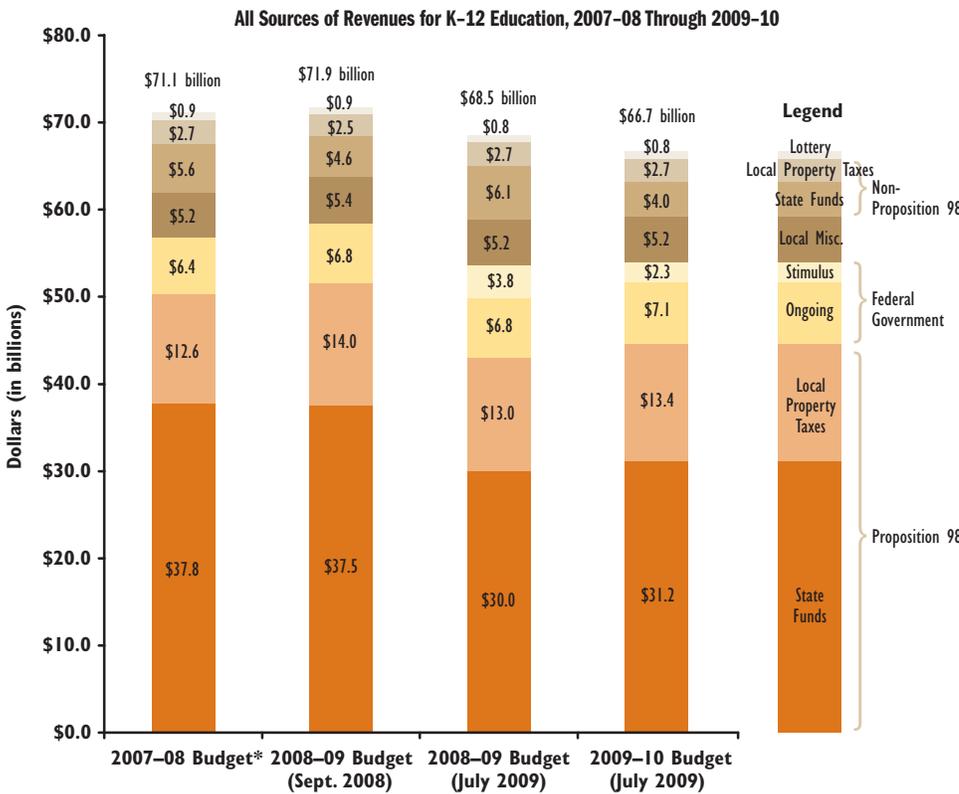
In addition, federal funds generally make up about 10% of total K–12 revenues, with all of these funds earmarked for specific purposes, such as compensatory education

programs for disadvantaged students (Title I), Child Nutrition, and Special Education for those with disabilities. The past two budget years have been an exception to that, as the federal stimulus package enacted in February 2009 provided one-time funding totaling about \$3.8 billion in 2008–09 and \$2.3 billion in 2009–10. Although the largest portion of those funds was discretionary for school agencies, substantial reporting requirements are attached.

As Figure 2 indicates, the increase in total federal funding between 2007–08 and

2009–10 was about \$3 billion. The net decrease in Proposition 98 funding for the same period was about \$5.7 billion. On balance, K–12 education saw a cut in funding from these combined state and federal sources of more than \$2.7 billion. That represents about \$470 per pupil (based on estimated 2009–10 average daily attendance or ADA of 5.9 million students). Other sources of revenues for schools also decreased by a total of \$1.7 billion. (See Figure 2.)

**figure 2 | Even with increased federal support, total revenues decreased by \$4.4 billion since 2007–08**



\*These numbers reflect the updated estimates for 2007–08 rather than the 2007–08 budget as passed in August 2007.

Notes: Local miscellaneous sources include private donations, parcel tax revenues, interest income, etc.

The state counts non-Proposition 98 state and local funds as part of total education funding. The local portion is mostly debt service, and the state portion includes bond repayments and spending for state education agencies and programs.

The amounts include more than \$2 billion each year for services to school-age children outside regular K-12 school agencies and to individuals not part of the K-12 population but served by school agencies.

K-12 Proposition 98 average daily attendance (ADA) for 2009–10 is about 5.9 million, plus approximately 312,000 in adult education and 145,000 in regional occupational centers and programs (ROCPs).

*Will Californians accept continued cuts to their public schools?*

During 2009, California’s leaders used many tactics to keep state finances from completely falling apart, but the situation remains tenuous as 2010 begins. Forecasts project multi-billion dollar deficits for the next several years absent corrections, and local school agencies will need to build their preliminary 2010–11 budgets from the governor’s upcoming budget proposal, which will doubtless reflect the bleak outlook.

Many education advocates are making a case that the resources for schools are already inadequate and further education cuts seriously imperil the state’s future. Some are preparing legal challenges, while others are looking to the initiative process as a way to improve school funding. It remains to be seen whether the majority of Californians share their perspective and—even if they do—what is possible given the current state of the economy. [11]

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