



Clarifying
Complex
Education
Issues

School Finance 2001–02

Holding steady in an uncertain economy



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A lot can happen in a year. In the fall of 2000, California’s public officials were heralding a historic single-year increase in state support for public education of about \$6 billion. Within months, however, the economic boom—fueled largely by the super-heated growth of the Internet or “dot com” sector—began to falter. The state’s energy crisis added insult to injury as state leaders drew from reserves to help pay soaring electric bills. With costs up and revenues down, state leaders struggled to balance the 2001–02 budget while maintaining a strong commitment to K–12 education. They finally settled on an increase of about \$2.4 billion in state support for public schools.

Then, on September 11, the unthinkable occurred with the terrorist attacks in New York and Washington, D.C. While those tragic events had little direct effect on the work of the state Legislature as it finished up that week, they certainly heightened all Californians’ sense of anxiety and unease regarding the future. Subsequent reports of economic weakening provided further evidence that tougher times await.

So while 2001–02 may not be a banner year for school funding, this year’s budget may be the best schools see for a while. And with difficult times ahead, California’s resolve to continue with its standards-based reforms may be sorely tested.

This report captures the key actions related to the 2001–02 education budget and provides some background about the school finance system generally. It also explores in more detail state leaders’ most recent funding and policy decisions about standards-based reform, personnel issues, and school facilities.

California’s economy experiences a downturn

For the first time in several years, the final state budget total for 2001–02 was lower than originally projected. In January 2001, state officials expected that state revenues would increase by 3.3% in 2001–02. In his May revision, Governor Gray Davis announced that state revenues were instead expected to decline by 4.1%. This was offset somewhat by higher than expected revenues at the end of 2000–01. However, the Department of Finance estimated the net effect to be a \$4.3 billion reduction in projected revenues over the two years.

In addition, the budget was built on the assumption that the California Public Utilities Commission (PUC) would issue \$12.5 billion in bonds. A portion of these funds would be used to reimburse state General Fund expenditures of \$6.2 billion used to cover high energy costs and avert black-outs during the first half of 2001. As this publication went to press, the PUC had yet to take this action.

In October state officials had more bad news. The Legislative Analyst estimated that state tax collections for the first quarter of 2001–02 alone would be \$1 billion below the May projections upon which the state budget was built. The long-term economic implications for California—and thus for public education—could be serious. Experts are beginning to voice concerns about significant reductions for the 2002–03 budget. However, any negative effects are unlikely to change funding for schools this year.

In the context of this general economic downturn and the energy crisis, public education fared reasonably well in the final budget.

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State Board of Education

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Relations, Western United States,
IBM Corporation

Krys Wulff
Past President, American
Association of University
Women–California

Funding parameters set in the California Constitution, in particular by Proposition 98, assure a minimum funding guarantee for K–12 schools and community colleges. Although the increase was not comparable to recent years, state leaders chose to fund schools above the minimum required. (See the box on page 4 for a more thorough

explanation of Prop. 98 and future implications.) In addition, federal support for California schools increased by about 20%.

For 2001–02 the total projected revenue for California schools from all sources is more than \$53.7 billion. The governor and Legislature are responsible

Figure 1

K–12 funding comes from several sources

The sources of funds for California public schools include:

State funds \$32.2 billion
comes mostly from California sales and income taxes.

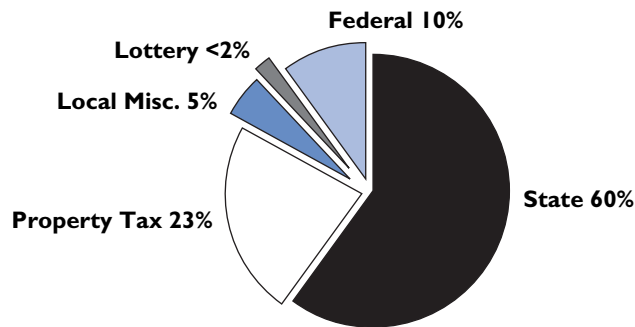
Local property taxes \$12.4 billion
which state lawmakers allocate to schools (cities, counties, and other agencies also receive some local property tax revenues).

Local miscellaneous revenues \$2.8 billion
includes community contributions, interest income, developer fees, and revenues from local parcel tax elections.

Federal government \$5.4 billion
overwhelmingly earmarked for special purposes.

Lottery \$0.8 billion
projected at about \$128 per student (ADA) to be used for instructional programs and materials.

Total estimated revenues for 2001–02 \$53.7 billion*



Proportion of revenues from each source

Projected California public school average daily attendance (ADA) for 2001–02: 6.17 million students**

Due to rounding, the items do not add to the total exactly.

*This total includes funding for adult education.

**This is based on the ADA calculation used by the Department of Finance and includes Adult Education and Regional Occupation Program (ROP) students.

Data: California Department of Education (CDE)

EdSource 11/01

for allocating about 83% of the total—or about \$44.6 billion—including state funds and local property taxes.

State commitment to K–12 education funding holds steady

Since the mid-1990s, California state leaders have steadily added to education funding, with the largest increased last year. The Legislative Analyst’s Office (LAO) calculates that from 1994–95 to 2001–02, the state increased its support of K–12 education by 27% in inflation-adjusted dollars.

Between 2000–01 and 2001–02, state funding for schools increases about \$2.4 billion, with about 80% going to maintain the existing budget. A total of \$565 million covers the cost of educating almost 80,000 additional students, an estimated 1.4% rise in enrollment. Another \$1.4 billion provides a cost-of-living adjustment (COLA) of 3.87% for most state-funded K–12 programs. The balance of the increase is earmarked for a combination of new programs and adjustments to existing ones. The largest of these includes \$200 million to provide extra support to low-performing schools and \$125 million to increase Special Education allocations as part of a legal settlement.

The state also provided a substantial amount in one-time funds for schools. The largest allocation was \$270 million that was also part of the legal settlement requiring the state to compensate school districts and county offices for past underpayments of its obligation for Special Education. (For more on Special Education and this settlement, see page 6.)

Another \$250 million in one-time money will help school districts defray the fiscal impact of California’s energy crisis. To receive these funds, each school district or county office governing board must adopt a resolution identifying conservation measures and a list of actions for reducing energy use. The allocation will be about \$33 per student (based on average daily attendance or ADA) with a minimum of \$14,000 per school site. Schools are unlikely to see these funds before spring 2002.

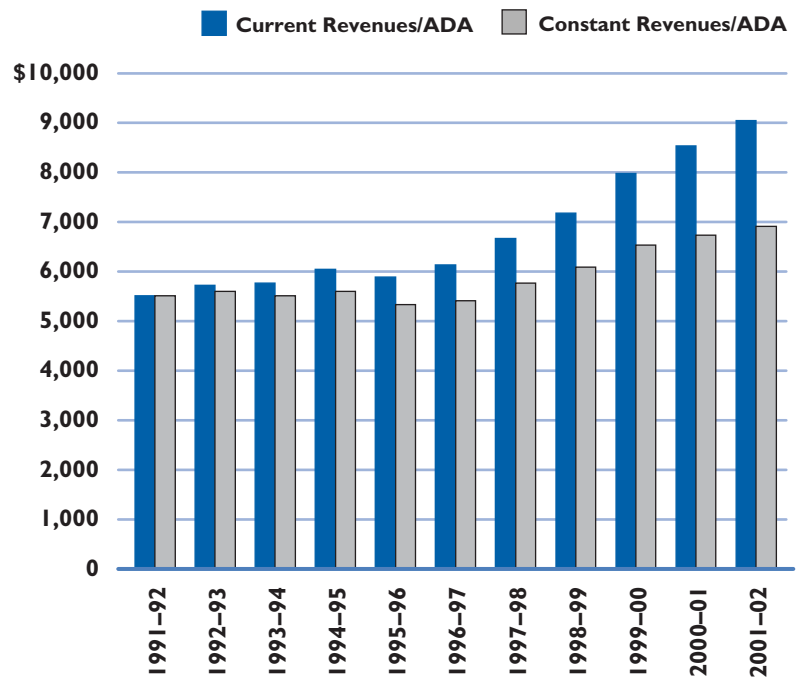
Finally, funds appropriated but unspent in previous years yielded another \$702 million. This unspent money is accumulated in what is known as the Proposition 98 Reversion Account. These funds are normally allocated

for expenditures the state is not committing to fund year after year. For 2001–02, however, state leaders used Reversion Account money for a number of programs that may in fact have funding implications in future years. Most notable are:

- \$80 million for the first year of a professional development program slated to go on for four years;
- \$75 million to cover new, ongoing state mandates;

Figure 2

Revenues per student continue to climb despite the tough economy



Whether based on current dollars or adjusted for inflation (constant dollars), California’s revenues per pupil have increased in recent years.

These calculations for 2001–02 are estimates based on the funds the state expected would be available to school districts, county offices, and other education agencies for the purpose of operating K–12 schools. This data uses an estimated average daily attendance (ADA) figure of 5.78 million students. The revenues do not include adult education.

It should be noted that the per-pupil amounts shown here are not equivalent to the expenditures-per-pupil amounts that are often reported and compared to national averages. Those reflect the actual spending of local school districts and education agencies, which are reported after a given school year has been completed.

Data: Legislative Analyst’s Office (LAO)

- \$40 million for equalization of base revenue limits; and
- \$35 million to reverse a historic reduction in ongoing funding related to the Public Employees' Retirement System (PERS).

A statewide source of revenue not directly controlled by policymakers is the California Lottery. Each year, education's share of the proceeds fluctuates along with ticket sales. A big jackpot can substantially change the amount that schools receive. For example, a \$140 million jackpot in 2000 led to the highest

sales in lottery history, and schools reaped the benefits. For 2001–02, state officials project about \$827 million in lottery revenues for schools or about \$128 per student. State law requires that, beginning in 2000, half of the annual increase in lottery money be spent on instructional materials. For 2001–02, about 10% of the proceeds are thus earmarked.

Federal support increases

While state General Fund support and local property taxes represent the bulk of K–12 funding in California, money does come from

Proposition 98 guarantees a minimum level of funding for schools

The state Legislature and governor largely control California's school finance system. Local school boards do not have independent authority to raise taxes, and voters in a school district have almost no say over how much schools have to spend. Further, many school expenditures are fixed because of contracts with employees, regulations in the state's lengthy Education and Government Codes, and requirements of categorical programs. School district officials set priorities and make decisions about their students' education within these constraints.

When voters approved Proposition 98 as an amendment to the California Constitution in 1988, they guaranteed K–14 education (kindergarten through community college) a minimum amount of state and property tax revenue each year. The calculation of that guaranteed amount is largely based on the health of the state's economy. As the California Department of Education explains it, the Proposition 98 funding guarantee relies on three basic principles:

- In years of "normal" state revenue growth, K–14 education receives at least the same amount as the previous year, adjusted for changes in enrollment and per capita personal income.
- In years of extraordinarily "good" or "bad" revenue growth, K–14 education participates in the state's gains or losses according to specified "fair share" formulas.
- Following a "fair share" reduction that causes the Proposition 98 funding guarantee to lag normal growth, the state is obligated to eventually restore K–14 funding to what it would have been if no reduction had occurred. The pace of the restoration is tied to the pace of the state's economic recovery.

The actual amount of the minimum funding guarantee is calculated using one of three "tests." The chart shows how the level of state tax revenues determines which test is used.

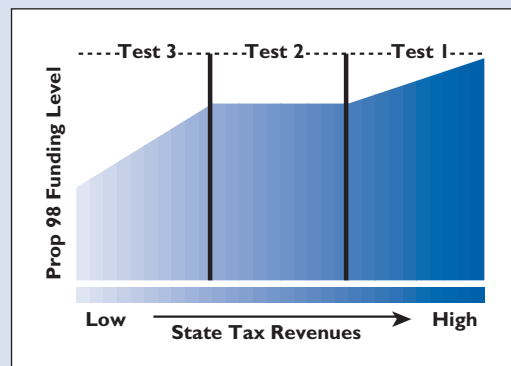
- Test 1 applies in very high revenue years, when the Proposition 98 guarantee is at least 34.6% of the state General Fund tax

revenues. (This has never been used, and about 40% of the General Fund is currently devoted to Proposition 98.)

- Test 2 is the same amount for education as in the previous year, plus enrollment growth and an inflation adjustment equal to the change in per capita personal income in the state.
- Test 3 is for years of very low revenue growth, when the change in state tax revenues per capita plus 1/2% is less than the growth in personal income per capita. The difference between this amount and what Test 2 would have yielded is to be restored to education funding in future years when state tax revenue growth is higher.

For 2001–02 state revenues are expected to put California in the Test 3 range, although state leaders funded schools above that minimum level. That augmentation was not, however, equal to what the Test 2 obligation would have been. In ensuing years, if state tax revenues grow sufficiently, the state will be required to increase funding to what would have been the Test 2 level. In 2002–03, this restoration could yield an additional \$1.4 billion, even in a relatively weak state economy.

For a more thorough explanation, see the EdSource publication *Understanding School Finance*. Order from the EdSource office or on the web: www.edsource.org



other sources as well. As Figure 1 shows, the federal government and some local miscellaneous revenues contribute to the total.

The growth in the federal contribution is of particular note. In 2000–01 California received \$4.5 billion from federal sources, and in 2001–02 that is projected to increase to \$5.4 billion. The total includes \$133.6 million for a major new program, the School Renovation and Repair program. The balance of the increase is spread among existing federal programs. Some notable increases include:

- 26% more for Special Education, for a total of \$665 million;
- 25% more for class size reduction, for a total of \$175 million; and
- 13% more for Title I programs, for a total of \$1.29 billion.

This year's theme: Maintain the status quo

In general, money goes to school districts and county offices of education in two ways. Some is “revenue limit” funding school districts can largely spend at their discretion, and some is “categorical aid” earmarked for special purposes. The latter includes such programs as instructional materials and services for students with special needs.

For 2001–02 the state allocated these funds very similarly to last year. The relatively small number of new categorical programs or policy initiatives is a marked departure from recent years that included significant reforms such as K–3 class size reduction and a new accountability system with rewards and sanctions.

A modest equalization program supplements base revenues

California school districts receive general purpose money based on a per-student revenue limit. They can use this money as they see fit for the day-to-day operation of schools, including everything from teacher salaries to the electric bill. Each district has its own revenue limit amount, set annually using specific formulas required by state law.

The revenue limit is paid to each district according to the number of students it serves. For this purpose, a district's average daily attendance (ADA) determines the number of students.

Since 1998–99, ADA has been based on actual student attendance as opposed to past practice, which included students with “excused absences.” When that change was made, district revenue limit amounts were increased to offset the lower ADA number. Districts with more excused absences received a larger increase to their revenue limit amount. These adjustments kept the total revenue for each district the same in that year, but increased the per-pupil revenue limit amount for some districts more than others. This created some anomalies that prompted new concerns over the process for equalizing revenue limit amounts among districts.

The 2001–02 budget package included a multiyear plan for equalizing school district revenue limits using a new process. (See Figure 3 on page 6 for more details.) Estimates are that the full implementation of the plan would cost the state almost \$400 million between now and 2006–07. The original legislation (Assembly Bill 441) allocated \$40 million from the state's General Fund to cover a modest first year of implementation and establish a commitment for future years.

When Gov. Davis signed the bill, he used his line-item veto to remove the provisions regarding the funding source and future commitment. Raising concerns about the state's ability to pay for the program in future years due to economic uncertainties, he asked legislators to instead fund the 2001–02 equalization out of one-time funds available in the Proposition 98 Reversion Account and they complied. Nearly three-fourths of school districts are eligible for these funds and will receive the partial augmentation on a pro-rata basis this year.

For most districts, the revenue limit comes from local property taxes to which state funds are added. In a handful of school districts, called “basic aid” districts, local property taxes equal or exceed the total revenue limit amount. Basic aid districts keep their property taxes and, in addition, annually receive \$120 per student in constitutionally guaranteed basic aid from the state.

Increases in earmarked funding focus on existing programs

More than a third of total school funding is earmarked for specific purposes and programs. Categorical aid is the catchall term used to

Worth Noting

Reflecting state leaders' suspicions that school district officials inflated their average daily attendance (ADA) in past years, the state has so far allocated \$9 million to conduct audits of about 650 districts. Governor Gray Davis vetoed a legislative effort to restrict the scope of the audits and limit the financial repercussions for school districts. The audits will likely take several years to complete and could require some districts to make substantial repayments.

describe this money. Some of the funds are targeted for particular pupils, such as students with disabilities and those who are English learners; and some are for specific programs, such as class size reduction and technology. This year marked a sizable increase in the amount allocated to Special Education.

Court decisions form the basis for some categorical programs, while legislative and gubernatorial actions create others. State and federal funds support well over 100 different categorical programs, some of which are quite small. Figure 5 on page 10 shows the largest ones and the funding amounts for 2001–02. Most of the state programs received a cost-of-living adjustment (COLA) of 3.87% plus increases based on the estimated growth in students served by the particular program.

The state distributes categorical aid in a variety of ways, including across-the-board

grants to all schools, reimbursements for specific services, incentives to encourage particular activities, and competitive grants. Most categorical funding is accompanied by conditions for its use. School officials often have to meet special reporting, accounting, and procedural requirements. For some programs, officials must include specific groups, such as parents and teachers, in decision making.

Special Education gets attention from state and federal leaders

For Special Education, the largest categorical program, the 2001–02 COLA provided about \$123 million in additional base funding. The settlement of a lawsuit related to Special Education, however, overshadowed this regular annual increase.

The Riverside County Superintendent of Schools originated the lawsuit against the state of California in 1980. It claimed that

Figure 3

How the new revenue limit equalization law would work					
<p>The intent of the revenue limit equalization law is to create a specified minimum revenue limit that all school districts can count on receiving. The specific level of funding would, as now, vary according to the size and type of district; i.e., small and large elementary, unified, and high school districts. If fully implemented, 90% of the state’s students (ADA) would be served in districts receiving the same amount of base revenue limit funding, and the remaining students would be in districts that received more because of historical factors. Prior to the attendance law changes in 1998–99, 98% of students were in districts that received a per-pupil amount within a band of \$234. A few districts received funding outside that band.</p> <p>There is currently no assurance that funding will be available in future years to equalize revenue limits at the minimum amounts set forth in the new law. This chart, based on 2000–01 data, shows how those new minimums would compare to average revenue limits and how many districts and students would be affected.</p>					
Type of district	2000–01 Average base revenue limit	2000–01 Equalization base revenue limit*	Total cost of equalization based on 2000–01 (in millions)	Number of eligible districts 2000–01	Total ADA of eligible districts 2000–01
Small Elementary	\$5,045	\$5,248	\$0.7	71	1,914
Large Elementary	4,128	4,183	87.5	383	1,033,719
Small Unified	4,609	4,736	5.2	53	31,431
Large Unified	4,278	4,320	243.8	193	3,497,438
Small High School	5,442	5,594	.05	3	290
Large High School	4,915	5,008	50.2	73	438,227
TOTALS			\$387.45	776	5,003,019
<p>*These calculations use “equalization base revenue limits” and are for illustrative purposes only. Actual district revenue limit calculations require the addition of “add ons” not reflected here and which vary from district to district.</p>					
<p>Data: California Department of Education (CDE) EdSource 11/01</p>					

state Special Education requirements went beyond the provisions of federal law, creating an unfunded state mandate. The court eventually ruled against the state, and the suit finally culminated in 2001 when every school district in California agreed to a settlement. Senate Bill 982 established the process by which the state will reimburse districts for past mandated costs and cover those costs in the future. It included three separate appropriations:

- **A \$100 million permanent increase in Proposition 98 base funding to augment state funding for Special Education.** Beginning this year, the state will cover the extra costs of the state-mandated Special Education programs and services identified in the lawsuit. School agencies will receive this funding as a per-student amount (based on ADA).
- **A one-time General Fund allocation of \$270 million to reimburse past costs.** The bulk of these funds will go to local school districts based on their total student populations. Of the total, \$13.5 million goes directly to county offices of education and Special Education Local Planning Areas (SELPA) based on a count of Special Education students, and \$6 million goes to the Riverside County Office of Education. This funding does not increase the Proposition 98 base.
- **An additional \$25-million payment to be allocated annually for the next 10 years, after which it ceases.** Beginning in 2001–02 and continuing through 2010–2011, school districts will receive a total of \$250 million as discretionary funds. This funding will not increase the Proposition 98 base.

In addition, California received a \$143 million increase in federal funds for Special Education. A large portion of this will be used to equalize Special Education funding levels among SELPAs, and the rest will be distributed evenly throughout the state on a per-student (ADA) basis as part of Special Education funding.

Representatives of California’s education community have been among those lobbying in Washington, D.C., to encourage Congress to fully fund the original federal commitment to Special Education. When the Individuals with Disabilities Education Act (IDEA) was

first passed in 1975, federal leaders set the goal of paying 40% of the excess costs of Special Education; but their contribution is currently about 15%. Fully funding the 40% level would yield over \$1 billion more for California, according to School Services of California, a consulting firm that assists California school district administrators.

Lawmakers provide some flexibility within categorical funds

Lawmakers continue to explore ways to provide districts with greater flexibility in the expenditure of categorical funds. This effort began about a decade ago with the combining of 20 separate categorical programs into a single budgetary “mega-item.” Districts were allowed to shift a portion of the funding among the programs. Today the “mega-item” itself is gone and the programs are again individually funded, but the flexibility remains. For 2001–02, districts can take up to 20% of the allocation from any of the specified programs and increase funding in any other by up to 25%. They can also transfer the funds into two additional programs—Healthy Start and Conflict Resolution.

Concerned about low-performing students, the Legislature this year attempted to provide school districts with additional flexibility by commingling Economic Impact Aid (EIA) and both voluntary and court-ordered desegregation funds into a single program, called the Targeted Instructional Improvement Program (TIIP). When members of the education community raised concerns about serious negative impacts on programs for English learners, legislators dropped the EIA funds from their TIIP proposal. The net effect is that the two desegregation programs have been combined into a single \$713 million program that will receive adjustments for ADA growth and COLA in the future. Districts must use the funds first to pay for any court-ordered requirements and then use the balance to improve instruction for the lowest achieving students in the district. School Services cautions that the latter requirement is likely to conflict with desegregation plans in some districts that use the money to support magnet schools, which do not necessarily serve low-achieving students.

In 2000–01 lawmakers created a pilot program to allow some additional experimentation with categorical flexibility. Assembly Bill

Worth Noting

Legislators placed on hold an allocation to reimburse districts for cost claims related to new school bus safety mandates. The claims would have totaled more than \$220 million in 2000–01 and about \$67 million in 2001–02. Citing surprise at unexpectedly high costs, lawmakers referred the matter to a joint legislative audit committee.

615 (AB 615), the Pilot Project for Categorical Education Program Flexibility, offered up to 75 school districts more flexibility in spending some categorical funds in return for fulfilling certain reporting requirements. Just five districts met the application deadline for this program last year. In hopes of encouraging greater participation, the California Department of Education (CDE) is developing a simplified application process and legislators changed some of the funding provisions.

State refines assessments and accountability

California’s assessment and accountability systems are works in progress. Lawmakers in 2001–02 took several steps to refine both. They also paid some attention to the challenges local school districts face in implementing the state’s academic standards and helping all students meet high expectations.

Much of the rhetoric and debate this year, however, revolved around the substantial achievement gap that exists between certain groups of students and schools in California, as revealed by the state’s current assessment system. But while the problem received increased attention, legislative solutions largely stayed the course in terms of programs. Here again, the state’s economic realities probably constrained lawmakers’ actions.

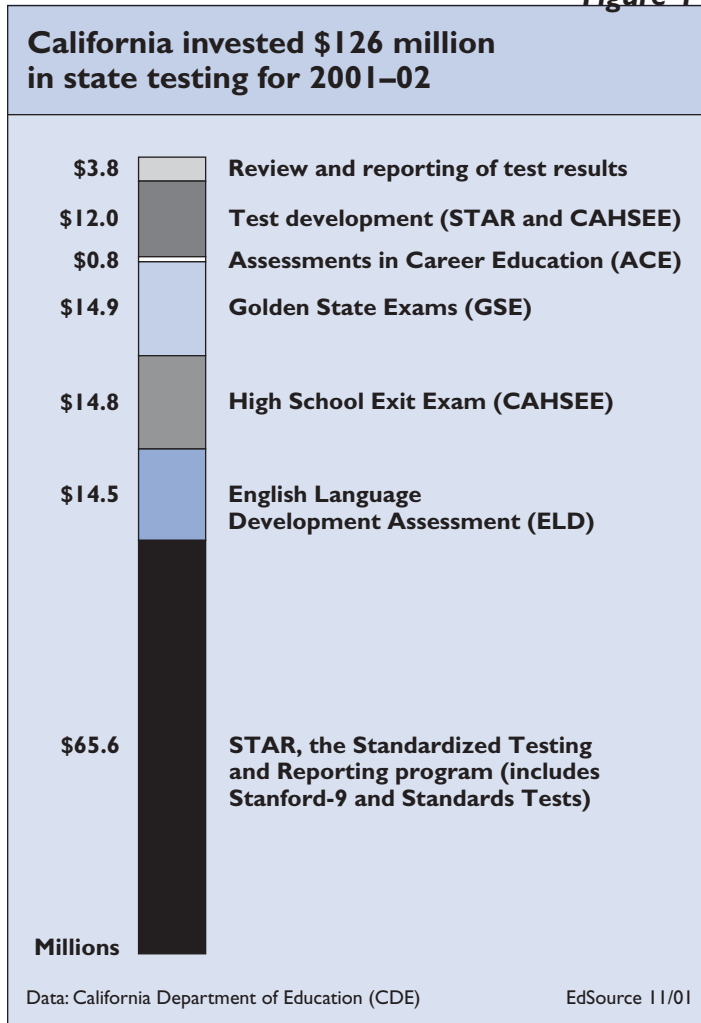
The assessment system continues to evolve

California’s student assessment system has grown steadily, with about \$126 million set aside for its various components in 2001–02. This will provide local districts with funds to administer the tests and give the state almost \$16 million to support test development and general reporting.

Lawmakers this year made several changes to the state’s assessment system, many of which simply codified changes already put into practice as the system has evolved since 1997. First and foremost, they extended the current Standardized Testing and Reporting (STAR) program until January 2005, while allowing for changes to the program before that. Under Senate Bill 233 (SB 233), the guiding principles for this extension were to emphasize tests based on state standards and minimize the disruption of instructional time. In furthering these goals, the new law laid the groundwork for a number of changes to the STAR system that will take time to implement. These include:

- Creating new standards-based tests in history/social science and in science at one upper-elementary or middle-school grade, and in mathematics for 8th and 9th graders who have not taken Algebra 1 or Integrated Math 1;
- Consolidating, at the high-school level, the Standards Tests and Golden State Exams as appropriate;
- Eliminating the history/social science component of the Stanford-9 at the high school level by 2003;
- As appropriate, allowing adoption of a different national norm-referenced test than the Stanford-9 Form T currently in use (including a shorter form of that test); and

Figure 4



- Conducting technical evaluations to ensure the coherence and quality of the testing system.

Following a controversial and somewhat disjointed start to the California High School Exit Exam (CAHSEE) in March 2001, state leaders also passed legislation (AB 1609) to try to clarify and assure the fairness of this new high school graduation requirement. This new law says that students will not take the exam until their sophomore year of high school. Further, it calls for an independent study of whether the state has taken the steps necessary to fairly hold students accountable for the material on the test. The final report from this study is due in May 2003. Should the results be negative, the State Board of Education could then decide to delay the requirement, meaning that the class of 2004 would not have to pass the exam to graduate.

Policymakers tinker with the PSAA system

California’s Public School Accountability Act (PSAA), passed in 1999, created a system for evaluating the quality and improvement of public schools. It set up the Academic Performance Index (API), which rates and ranks public schools based on a single-number index or score. It also created a “similar schools” rank to compare schools with those most like them based on student characteristics and other factors. Growth in a school’s API puts the school and its teachers in line for monetary rewards as long as “statistically significant” subgroups of their students also show acceptable progress. A low score and lack of improvement make a school eligible for the state’s Immediate Intervention/Underperforming Schools Program (II/USP).

In the years since the PSAA was first enacted, some shortcomings in the system have become obvious and some vagaries in its implementation have been resolved. Additionally, the results so far have led policymakers to pinpoint gaps in student achievement as an area of particular concern. Thus, in 2001–02, a number of changes were made to the components of the PSAA.

The API calculation is evolving

Since the first release of API scores ranking California schools, it has been clear that the index would evolve over time. The law

originally called for both test results and non-test indicators to be part of the index. For the first two years, the API was based solely on students’ performance on the Stanford-9 portion of the STAR test. In January 2002 the calculation will, for the first time, also reflect scores from Standards Tests.

As results from other assessments—including the High School Exit Exam and the state’s new English Language Development test—become available, these results may further change the API calculation. It is unclear when the non-testing elements of the API—such as student attendance and dropout rates—will be considered valid for use. The California School Information Services program (CSIS), in development since 1997, could help provide them. Lawmakers this year called for CSIS to be up and running for 90% of local districts and county offices by 2004–05, but Gov. Davis vetoed this measure (AB 295), citing fiscal concerns.

Lawmakers also took action this year (AB 1295) so schools with fewer than 100 students can be assigned an API and qualify for rewards and interventions. The index number for these schools will be marked as having “less statistical certainty” than is true for larger schools. In addition, the superintendent of public instruction is authorized to define for these schools what constitutes the “numerically significant” subgroups of students that must also show progress.

Intervention programs expand and focus on “high priority” schools

An important emphasis for lawmakers this year was the refinement and expansion of state programs meant to assist and improve the lowest performing schools. At the center of this effort is the Immediate Intervention/Underperforming Schools Program (II/USP), which was first implemented in 1999 and targets schools that have not met their state-determined growth targets on the API.

The budget allocated \$161 million in state money to this program for 2001–02. In addition, federal funds in the Comprehensive School Reform Demonstration (CSRSD) program contribute \$33 million for II/USP schools. A key objective was to increase the implementation grant amounts from a maximum of \$168 per student to \$200. A total of 860 schools qualify for implementation grants this year.

Worth Noting

State leaders allocated funds for the development and distribution of workbooks to help students and their parents prepare for the state assessments. A workbook for 10th graders would focus on the English/language arts and mathematics content tested on the state High School Exit Exam. A second set of workbooks for grades 2 to 11 would be keyed to grade-appropriate content standards and test questions in the four core curriculum areas. The budget allocates \$3 million for the 10th grade workbooks. No funding for the other workbooks was included in the 2001–02 budget.

Figure 5

State and federal education money earmarked for special purposes					
Major State Programs	2000–01 Millions	2001–02 Millions	Major State Programs (cont.)	2000–01 Millions	2001–02 Millions
Special Education	\$2,443	\$2,608	Mandated Costs (includes parent notification requirements)	155	168
Special Education Mandated Cost Claims Settlement (includes \$270 million on a one-time basis, \$25 million on an annual basis for 10 years, and \$100 million on a permanent ongoing basis)		395	Intervention/Underperforming Schools (II/USP) (2000–01 total includes some prior-year funds)	72	161
Class Size Reduction (K–3)	1,566	1,610	Governor’s Performance Award Program (2000–01 total includes \$96 million in prior-year funds)	227	157
Child Care and Development (includes \$117.5 million for Before and After School Learning Centers)	1,140	1,309	Class Size Reduction (9th grade)	167	145
Targeted Instruction Improvement Block Grants (TIIP) (formerly Desegregation funds)		713	Peer Assistance and Review/Mentor Teacher	137	134
Court-ordered Desegregation	529	0	Student Assessment Testing	112	126
Voluntary Desegregation	149	0	Teaching as a Priority Program	119	119
Adult Education (includes \$17.9 million for adult education in correctional facilities)	591	619	Beginning Teacher Support	89	105
Home to School Transportation	477	503	Certificated Staff Performance Incentive	100	100
Economic Impact Aid	427	466	Major Federal Programs		
Summer School/Supplemental Instruction Programs	419	435	Child Nutrition	\$1,333	\$1,379
School Improvement Program (SIP)	401	418	Title I (2001–02 total includes: ESEA, \$1,174; Migrant Education, \$117)	1,143	1,291
ROC/P (Regional Occupational Centers/Programs)	337	360	Child Care and Development	809	834
Instructional Materials (standards-based)	250	250	Special Education	528	665
Energy Funds for School Districts		250	Class Size Reduction	140	175
Supplemental Grants	222	234	School Renovation Grants Program		134
Staff Development Days (state-supported)	247	224	Vocational Education	123	130
High Priority Schools Grant Program		200	Major 2000–01 Programs Not Continued This Year		
Deferred Maintenance	193	194	Millions		
Library Materials (includes \$158 million for school libraries and \$25 million for K–4 classroom libraries)	183	183	School Site Employee Performance Bonus Program	\$350	
Instructional Materials K–8 (\$137 million) and 9–12 (\$35.8 million)	165	173	English Language and Intensive Literacy Program	250	
			School District Block Grant	245	
			School Site Block Grant	180	
			Educational Technology	175	

Data: California Department of Education (CDE)

EdSource 11/01

In October 2001 the CDE named a third cohort of 430 schools to participate in the II/USP. Each will receive a \$50,000 planning grant that they must use to develop a plan for school improvement. Upon approval of this plan by the State Board of Education, the school will receive an implementation grant of at least \$50,000 and up to \$200 per student. Current law requires that the local school or district match the state's II/USP contribution.

New legislation (AB 961) expanded state support for schools with the lowest API scores, whether they are showing improvement or not. The High Priority Schools Grant Program (HPSG) will provide an additional \$200 million for the lowest performing schools' improvement efforts. This program—which this year targets only schools with API scores in the bottom 10% (Decile 1 schools)—will be integrated with the II/USP.

In late October, Superintendent of Public Instruction Delaine Eastin sent the superintendent of every school district with a Decile 1 school a letter strongly urging them to participate in the HPSG. Decile 1 schools admitted to the II/USP this year can submit one application and one action plan for both programs. Schools in the II/USP prior to the bill's enactment are also invited to participate. Those not already in II/USP have the option of applying for a \$50,000 planning grant or a \$400 per-student implementation grant this year.

While some of the program regulations are still in development, the legislation set up some specific requirements. Among them, staff at all HPSG schools must also participate in the state's new Math and Reading Professional Development Program and new training program for school principals. A school must also address four essential components in its improvement plan, including pupil literacy and achievement; quality of staff; parental involvement; and facilities, curriculum, instructional materials, and support services. Districts that elect for their Decile 1 schools to not participate must hold a public hearing to explain that decision to their community. For more information, go to: www.cde.ca.gov/i/iusp

Fewer award dollars will be dispersed

In 2000–01 three separate award programs provided \$677 million in financial incentives to schools and school employees based on API scores. That amount has been reduced

by more than 60% this year. The Governor's Performance Award (GPA) Program, which awards funds to the school as a whole, will dispense a total of \$157 million in 2001–02. Another \$100 million is expected to be distributed through the Certificated Staff Performance Awards, which provide personal bonuses to teachers and other certificated staff such as principals and counselors. The School Site Employee Performance Bonus program, which totaled \$350 million in 2000–01, has been discontinued.

Changes this year will also make it more difficult for the highest-achieving schools to qualify for awards. Previously, in order to receive cash through the GPA program, schools had to either meet the statewide API target of 800 or meet their growth targets. This year, in order to earn awards, all schools—even schools with an API over 800—must increase their API by at least five points. In addition, the API for significant subgroups of students in the school (categorized by ethnicity or socioeconomic status) must improve by a minimum of four points.

Student-focused interventions are underutilized

As part of the state's goal of having all students meet high academic expectations, state leaders have invested in remedial or "intervention" programs to provide extra instruction for students who are struggling. Previously, the funding traditionally provided for summer school was reallocated for this purpose and five additional programs were created. In 2001–02 the total allocated for these programs is \$435 million. In addition, Algebra Academies for 7th and 8th graders will continue this year with ongoing funding of \$12 million.

To access these funds and implement the programs, school districts juggle a variety of state requirements regarding which programs are mandatory, which have caps on student participants, and which require instruction in specific subject areas or grade levels. They must also run the programs based on a \$3.38 per-student, per-hour allocation. This hourly rate for supplemental programs contrasts with funding for the regular day program, which School Services estimates to be about \$5 per student per hour (based on average revenue limit).

School Services also reports that in 2000–01 districts failed to spend nearly

Worth Noting

The K–12 education budget includes \$2.2 billion in child care and development funds, of which \$895 million is federal money. These allocations largely go to preschool programs, though some of the funds provide programs for K–12 students outside regular school hours. The latter includes California's Before and After School Learning and Safe Neighborhoods Partnership Program.

\$100 million of the available funds for these intervention programs. In particular, districts have not used funds set aside to support extra K–4 reading instruction. This is puzzling when student performance data—and the persistent dramatic achievement gaps among groups of students—make clear that many students need additional help.

Policymakers might rightfully question why the funds have not been fully used, and plausible explanations abound. If funding for the programs does not cover the full cost, districts may be unwilling or unable to supplement the programs from their regular budgets. With achievement gaps most pronounced in the upper grades and the K–4 program least utilized, perhaps there is a mismatch between how the funds are allocated and actual student needs. Faced with continuing teacher shortages, school districts may simply be unable to find qualified staff to carry out the programs. And in many communities, the extra transportation costs for running after-hours programs have been cited as a problem. Gov. Davis

vetoed legislation that would have directed a portion of any unspent funds in 2001–02 to help districts with transportation costs.

In addition to intervention programs targeted at low-performing students, the state over the last few years has increased its support for after-hours programs available to all students in a school. For 2001–02, school districts, charter schools, and nonprofit community organizations can apply for \$118 million in grants for before- and after-school programs. In addition to adding \$30 million for this effort, lawmakers made substantial changes in the existing program (AB 6), most notably the addition of a before-school component. They also officially renamed it the Before and After School Learning and Safe Neighborhoods Partnership Program.

A primary goal of this effort is to support academic achievement. Targeted at students in kindergarten through 9th grade, the state’s program specifies activities that must be offered and hours of operation. Reimbursements—which average about \$5 per student per day—are contingent upon these requirements being met.

State maintains support for personnel programs

As in other areas of school operations, much of the 2001–02 funding related to personnel goes to support already established programs. The state’s various teacher incentive and professional development programs will drive more than \$660 million in funding in 2001–02. This includes \$224 million for district-determined professional development days and \$134 million for the Peer Assistance and Review (PAR) program. And state leaders again allocated more than \$118 million for districts to develop incentives meant to attract new teachers to the lowest performing schools.

Also included in the K–12 budget are funds that go directly to teachers. Those who attend state-sponsored Professional Development Institutes will collectively receive a total of \$54 million in stipends. Another \$15 million will reward those who complete the rigorous national program of professional development that results in National Board Certification.

Funding for instructional materials remains strong

For 2001–02, the state allocation for classroom and library materials totals \$607 million, including the following:

Standards-based materials (“Schiff-Bustamante”):	\$250 million
Instructional materials, grades K–8:	137 million
Instructional materials, grades 9–12:	36 million
Total funds for instructional materials:	\$423 million

School libraries:	\$159 million
K–4 classroom libraries:	25 million
Total support for libraries:	\$184 million

Expressing an ongoing commitment to the implementation of state standards, lawmakers agreed to continue the “Schiff-Bustamante” standards-based instructional materials program. Citing long-term economic uncertainty, Gov. Davis vetoed a bill that would have guaranteed continued funding for the program (AB 50). Another new law (SB 786) requires school districts to purchase the materials within two years of when they receive funding.

Lawmakers balance issues of teacher supply and quality

For several years California has struggled with twin dilemmas when it comes to staffing public school classrooms. On the one hand, the state faces a shortage of people interested in teaching, particularly at the most challenging schools. On the other hand, it confronts ongoing concerns about the ability of those who enter the classroom to teach to demanding new academic standards. Thus policy action around teacher recruitment has focused on ways to both improve the preparation of teaching candidates and streamline the process by which qualified candidates receive a credential.

In 1998, legislation (SB 2042) called for the development of new standards for teacher preparation programs. Following three years of work, including extensive input from the K–12 and higher education communities, the California Commission on Teacher Credentialing (CTC) adopted the standards.

All institutions that offer credentialing programs—including colleges, universities, and school districts that run intern programs—now have two years to align their content and instruction to these new standards. This will require some sweeping changes in what teachers must know and do in order to earn a credential.

In addition, beginning in 2002, all new teachers must participate in a state-approved beginning teacher induction program for two years in order to earn a professional level credential. To support this new requirement, school districts are adopting systems for mentoring and assessing their new teachers. Districts can sponsor a state-approved beginning teacher induction program or create one that meets the same guidelines. To support this new requirement, the state is allocating \$104 million in 2001–02 for “beginning teacher support and assessment,” up from \$88 million in 2000–01.

Lawmakers at the same time chose to address some requirements in California’s credentialing law that critics have said put up artificial roadblocks to potentially well qualified teachers. With few exceptions, California law has required that anyone wanting to teach in a public school must complete the state’s teacher preparation program, regardless of professional experience. A new law (SB 57) relaxes that requirement somewhat. For example, a person

who has taught at least six years in an accredited private school may now be able to waive the preparation requirement. To do so, individuals must show that they underwent two years of rigorous performance evaluations while teaching at the private school and that they meet California requirements for teacher fitness, including having at least a bachelor’s degree and being able to pass the California Basic Educational Skills Test (CBEST). Individuals with at least three years of private school teaching experience can have the student-teaching portion of the requirement waived, provided they meet the same criteria.

This law also makes it possible for candidates to opt for early completion of a district internship program, provided they:

- Pass a written assessment of their knowledge of teaching foundations (includes specified teaching theories and techniques);
- Pass the planned teaching performance assessment (or, until there is one, demonstrate competence via field experience);
- Pass the reading instruction competence assessment (elementary teachers); and
- Meet the requirements for teacher fitness (bachelor’s degree and pass the CBEST).

Interns who complete these requirements are eligible for a 5-year preliminary credential. For a clear credential, they must in addition complete an approved beginning teacher induction program, which can also be done on an accelerated schedule.

Reflecting the Legislature’s concern about the high number of teachers working on emergency permits, school districts will find themselves facing another new requirement (SB 837). Effective Jan. 1, 2002, districts wanting to hire teachers on emergency permits will have to first demonstrate to the state that they have explored all possible avenues for finding certificated teachers.

Funds support improving the skills of today’s educators

In the summer of 2001, about 70,000 teachers participated in the state’s new Professional Development Institutes focused on subject matter. For 2001–02, those programs will continue and California’s lawmakers funded two additional programs aimed at improving the abilities of educators already on the job.

Worth Noting

A new law (SB 334) encourages retired teachers to return to the classroom. Those who do so for at least two years will now be eligible for increased retirement benefits through the State Teacher Retirement System (STRS).

A new professional development program allows local control

A new Mathematics and Reading Professional Development Program (AB 466) enables local school districts to establish and run their own professional development programs based on the model created by the state's Professional Development Institutes. The program provides incentive funding for districts to train not only teachers but also instructional aides and paraprofessionals who directly assist in classroom instruction. Ultimately, the hope is that all the state's teachers will receive appropriate standards-based training in reading instruction, math instruction, or both.

All school districts and county offices are eligible to operate this program, with incentive funding available on a first-come, first-serve basis. This is intended as a four-year program during which participating districts will be expected to train all their eligible staff. They must give first priority for participation to teachers in low-performing schools and those who have not attended the state-sponsored institutes. The

training is to include 40 hours of professional development plus an additional 80 hours of follow-up instruction. Districts will receive \$2,500 for each participant, to which they can add local stipends. The legislation restricts the amount of those stipends to a maximum of \$1,000 for teachers and \$500 for aides. Districts are also required to have standards-based textbooks on hand in grades and subjects for which professional development is offered.

The full cost of running the program for four years was estimated at \$588 million. However, the 2001–02 allocation of \$80 million came out of one-time funds, leaving unclear how the program will be financed in subsequent years.

A new training program serves school site leaders

Reflecting a growing concern about the need to better prepare school principals for the challenges created by standards-based reform, the state established a new Principal Training Program (AB 75). Funded at \$15 million, also out of one-time funds, the program offers a financial incentive to school districts that provide state-approved training to school site principals and vice principals. Districts can apply alone or in collaboration with other education entities or institutions of higher education. If their proposals are accepted, the districts will receive \$3,000 per administrator to be trained. They must match that state contribution with locally generated funds of \$1,000 per attendee that can come from local, federal, or private sources. To help districts satisfy part of that matching requirement, California has applied for an \$18 million, three-year grant from the Bill and Melinda Gates Foundation. The hope is that districts would automatically receive their share of the grant funds at the same time they receive the state money, but the final regulations for the program have not yet been approved.

The training program must be at least 80 hours, with an additional 80 hours or more of intensive individualized support and training. The latter must be completed within two years. The legislation specifies some areas that must be included in the training, and districts are encouraged to add other subjects depending on the needs of local school site administrators. For new administrators, the training can be used to meet all or part of the requirements for

Three laws change provisions for charter schools

State leaders passed three laws addressing the operation and funding of charter schools in California. The major changes include:

A new accountability measure (SB 675) that requires charter schools to submit their annual financial and compliance reports to the California Department of Education in addition to their chartering agency (either district or county office).

Changes in funding provisions (SB 955) including removing a school's PSAA-related award and intervention funds from the categorical block grant that the school's governing body controls; and adjustments to the funding calculations for students who live in basic aid school districts but attend charter schools outside the district.

Tighter controls on charter schools offering nonclassroom-based instruction (SB 740), such as distance learning and home schooling, through new regulations that are to be developed by the State Board of Education by February 2002.

A new Charter School Facility Grant Program (SB 740) that will provide schools with up to \$750 per ADA to assist with rent or lease costs. To be eligible, charter schools must be physically located in the attendance area of a public elementary school that has at least 70% of its students eligible for free/reduced price meals. In addition, the charter school cannot offer nonclassroom-based instruction and cannot occupy an existing school district or county office of education facility. The total allocation for this program was \$10 million for 2001–02.

earning a clear administrative credential if the CTC approves the district program.

The goal of the program is to train all the state’s principals and vice principals over a three-year period. The highest priority will be training administrators at schools that are low performing and/or identified as “hard to staff.”

Facilities issues gain attention but few funds

Another important factor in enabling students to meet high standards is ensuring that school environments are conducive to learning. Funding adequate school facilities is a stated priority for lawmakers in California, and they considered several related measures this year.

The funding need is well documented and continuing

Schools need more than \$39 billion for facilities according to estimates generated by California’s education community and presented to the Legislature by Superintendent of Public Instruction Delaine Eastin in August 2001. That estimate includes \$28 billion in new construction, modernization projects totaling \$8.4 billion, and hardship needs of \$3 billion. These estimates are on top of the projects funded with the proceeds of Proposition 1A—a \$6.7 billion statewide school facilities bond passed in 1998. Those funds are virtually gone, and the State Allocation Board reports that it currently has \$3 billion in projects that are approved and not funded.

During the 2001–02 legislative session, state policymakers considered placing another statewide school bond on the ballot in March or November 2002. Based on the data noted above, Eastin recommended a bond amount of \$24 billion for K–12 education for four years, including \$14 billion for new construction, \$7 billion for modernization, and \$3 billion to fund situations of immediate hardship. This amount anticipated that local communities would contribute at least 50% of new construction costs and 20% of renovation costs, as state guidelines currently require. The combined state and local funding would thus meet the \$39 billion total estimate.

Considerable debate regarding both the size and timing of a statewide bond continued

until the closing hours of the 2001 legislative session. Failing to reach agreement, policymakers took no action, effectively eliminating the possibility of a March election. The deadline for placing a measure on the November 2002 ballot is June 27.

Even as state leaders acknowledged the need to invest in school facilities, they took other actions that belied their concern. For one, they chose to fund the state’s share of deferred maintenance at only 85% of the projected need. In addition, they debated but took no action to address the continuing facility and funding challenges faced by schools operating on multi-track, year-round calendars.

Some new policies are addressing the facilities problem

Meanwhile local school districts’ options for raising facility funds increased with the November 2000 passage of Proposition 39. Local governing boards now have a choice of two strategies for presenting a general obligation bond to voters. They can, as in the past, set the bond amount they want, select an election date, and put a proposal before voters seeking a two-thirds vote. Or they can propose the bond with a 55% voter approval if they agree to specified conditions, including:

- Holding the election as part of a general election;
- Limiting the amount of the tax burden on property owners;
- Listing the specific projects for which the funds will be used;
- Appointing a “citizens’ oversight committee;” and
- Conducting two independent audits annually of applicable expenditures if the bond passes.

Through June 2001, three districts held elections under the new 55% rules, and two measures passed. Another 17 districts held elections under the old two-thirds rules, and 11 of them succeeded.

The federal government has also shown its concern about school facilities by enacting a new School Renovation Grants program. In California, the federal money available for schools totals \$133.6 million. Of these funds, 75% will go to local school districts, county

To Learn More

For more information on California’s school finance system, go to the EdSource website: www.edsource.org/edu_fin.cfm Besides invaluable background information and links, look for *How California’s Education Dollars Are Spent*, an EdFact updated October 2001 and available only online.

Or see the following EdSource publications:

- ✓ *Resource Cards 2001*
- ✓ *How Much is Enough? Funding California’s Public Schools* (April 2000)
- ✓ *Understanding School Finance: California’s Complex K–12 System* (February 2000)

For a good overview of the California K–12 budget, plus details and contact information for every major categorical program, go to:

www.cde.ca.gov/fiscal/budgetact

offices, and charter schools for urgent school repairs based on a competitive grant process. The Office of Public School Construction (OPSC) will administer this program. The balance of the federal allocation has been set aside specifically for technology related to renovation. The California Department of Education (CDE) is in charge of this program, which also requires local education agencies to compete for grants.

What's coming next?


With the world in its current turmoil, any predictions about the year to come are tenuous at best. Nonetheless, several things stand out as potential barometers of public education's future in California, or at least its financial future. These include the economy generally, pending legal challenges to how school funds are expended, and the as-yet-unfinished work of developing a master plan for K–12 and higher education.

After several years of more positive finances, local schools are once again confronting the challenges that go with severe budget constraints. For example, last year's 10.9% boost in revenue limit funds encouraged employee unions throughout the state to negotiate aggressively for salary increases. Reports indicate that some districts agreed to ongoing increases they will be unable to meet in future years unless they cut costs in other areas of program or operation.

Based on January 2001 fiscal reports, three districts received negative financial certifications stating that they could not meet their financial obligations and 19 received qualified certifications based on data showing they might not be able to do so. The Fiscal Crisis Management and Assistance Team (FCMAT), the independent agency that provides technical assistance to districts facing fiscal insolvency, also reports an increase in the number of districts beyond this list that are calling for help. It remains to be seen how districts will fit the often generous collective bargaining agreements they made during 2000–01 into this year's more difficult financial reality.

As occurred in 1977 with the *Serrano v. Priest* court decision, California's public education system once again faces the prospect of a far-reaching class action lawsuit dictating key policy decisions. The *Williams v. California* suit calls into question the state's fulfillment of its obligation to provide the essentials of a public education. The suit charges that those essentials are not in place at all schools. The state has responded with a legal claim against local school districts, saying they are accountable for how they spend their money. If the issue is resolved through a settlement with the state, its implications may be known within the next year. A full court battle could take much longer and cost millions.

With the *Williams* case as the backdrop, the Joint Legislative Committee for a K–16 Master Plan is scheduled to present its recommendations to the Legislature as a whole during the spring of 2002. Among the eight major topics being addressed by the committee, school finance and governance are among the most complex and interrelated. It remains to be seen whether the two years of work that have gone into the recommendations will result in a plan that can be adopted and implemented.

Each year, Californians' conviction that K–12 education is vitally important gets balanced against political realities and practical constraints. In 2001–02, and for the foreseeable future, economic uncertainties threaten to tip the scales. State leaders have spent five years investing in systems for assessment, accountability, teacher quality, and instructional improvement, all in the hopes of meeting higher academic expectations for all students. Will they be able to maintain their commitment to California's six million public school students and more than 8,000 schools? It will certainly require clear vision, strong resolve, careful priority setting, and skillful public policy development. Some good fortune would help as well. 



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EdSource
4151 Middlefield Road
Suite 100
Palo Alto, CA
94303-4743
650/857-9604
Fax 650/857-9618

E-mail
edsourcesource@edsourcesource.org
Or visit us on the web:
www.edsourcesource.org

For data about every school and district in California, visit the Education Data Partnership:
www.ed-data.k12.ca.us

This report has been prepared by:

Mary Perry, writer
Jackie Teague, researcher
Susan Frey, editor