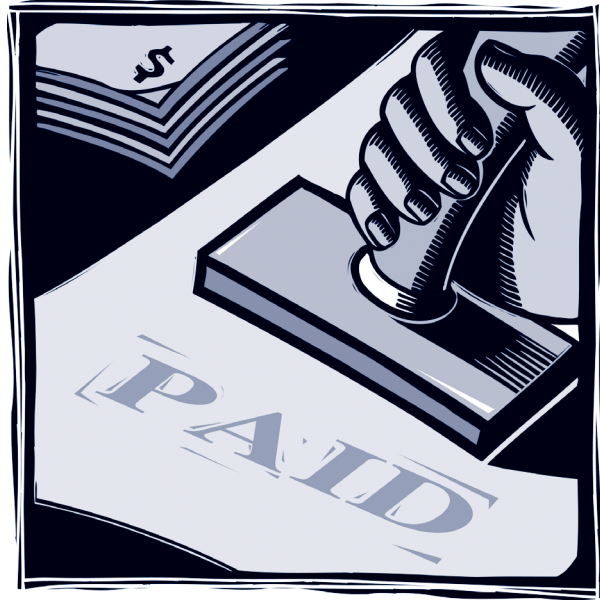


# School Finance 2006-07

## State Leaders Settle Up with Education



**CALIFORNIA'S 2006-07 BUDGET** for public education demonstrates the unpredictability of at least part of this state's school finance system. While the state's nearly 1,000 school districts can count on a relatively stable base of funding, the changes on the margin over the last three budget cycles have been dramatic, as have the politics.

In 2004-05 policymakers suspended the state's minimum education funding guarantee and provided public schools and community colleges, often referred to collectively as "K-14 education," with about \$1.6 billion less than the guarantee would have provided.

The following year, 2005-06, saw rancorous discussions of whether and how quickly the state could get its education spending back on track. Education advocates were disappointed with a "status quo budget"—one that provided enough for enrollment growth and increases in the cost of living but little else in new spending. (Later, it was determined that the Proposition 98 minimum was not met for that year either.)

Now in 2006-07, those same advocates are singing a much happier tune. An abundance of state revenues in spring

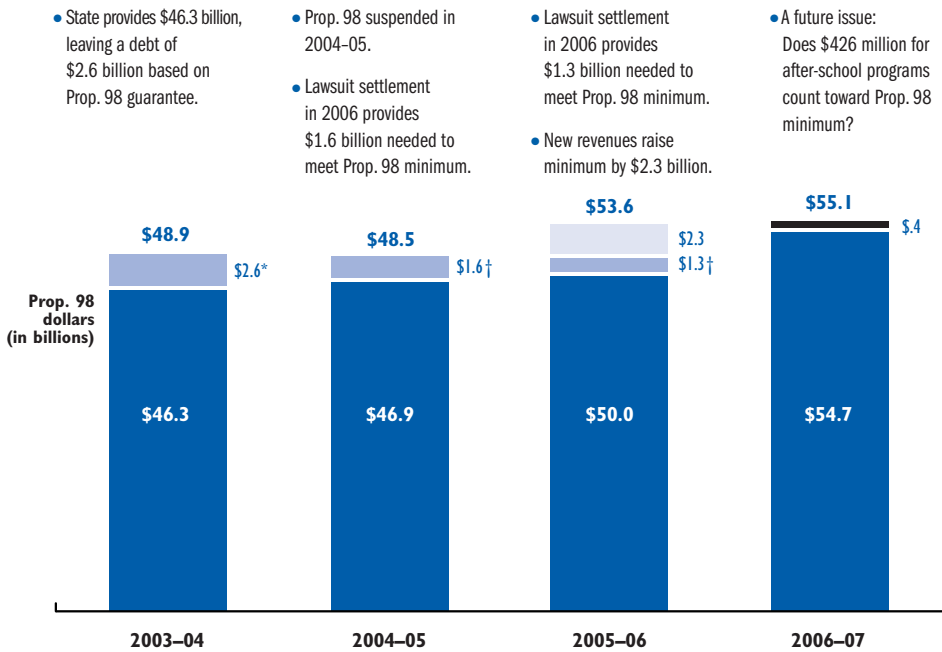
2006 allowed for a 2006-07 spending plan that includes paying off old debts to education agencies and putting overall K-14 education spending back to a "business as usual" level as guaranteed in state law. And in a break from the typical pattern—influenced by election-year politics and by the luxury of more money to spend—leaders in Sacramento enacted the state budget on time. That made it easier for state and local education agencies to plan for the year ahead and meet their own budgetary deadlines.

This report provides a brief summary of how those funding swings occurred and details what this year's decisions mean in terms of total revenues for K-12 schools and community colleges. It also takes a look at how state leaders allocated the bulk of the extra funds, including the creation of about 20 new programs.

### State budget volatility complicates education funding

As a result of several decades of court decisions and voter initiatives, the state largely determines the amount of funding school districts and community colleges in California receive. Not surprisingly then, the annual passage of the state budget is the single most important action in determining how much money these schools will have each year. The major governing force behind the decision is the minimum funding guarantee—Proposition 98—passed by voters nearly two decades ago.

The interaction of Proposition 98 requirements with volatile state funding levels since the start of this decade has made funding decisions particularly complicated in recent years. Deficits in some years, changes in the guarantee

**figure 1 | Tracking K-14 Proposition 98 Spending Over Time**

For the first three years (2003-04 through 2005-06), the dark blue boxes indicate the actual total Proposition 98 allocation made in the year indicated. Lighter blue boxes indicate funds that were or will be provided retroactively to meet the Proposition 98 minimum for that year. The black area in the 2006-07 bar represents funds whose relationship to Proposition 98 is currently unclear. For all of the bars, the specific numbers are based on a combination of data from the Legislative Analyst's Office, Department of Finance, and California Department of Education.

\* Most will be paid in 2006-07.

† Will be paid from 2007-08 through 2013-14.

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That year, state leaders were struggling to bring the entire budget into balance. At the same time, they faced a statutory obligation to either fully fund education consistent with the minimum guarantee or take the politically unpalatable step of suspending Proposition 98. The education community struck a political deal with Gov. Arnold Schwarzenegger, agreeing to not oppose the suspension if the total cut to education would be no more than \$2 billion below the guarantee amount, a provision that was put into legislation. Schools assumed that if state revenues exceeded projections, they would get more; and if revenues fell short of expectations, they would get less.

When the 2004-05 Budget Act was signed, it included \$46.9 billion for K-14 education. It soon became clear, however, that state revenues were going to exceed estimates, increasing the Proposition 98 guarantee to \$50.8 billion. From the education coalition's perspective, the "deal" dictated that the state should have adjusted the 2004-05 funding to \$2 billion below the new guarantee, meaning \$48.8 billion. With that change, funding in 2005-06 would have been increased as well.

However, neither the governor nor the Legislature acted to increase 2004-05 and 2005-06 funding for K-14 education. They set 2005-06 funding at about \$50 billion. That prompted litigation by the California Teachers Association (CTA). In mid-2006, the CTA and the state settled the lawsuit. As a result, the state added \$1.6 billion to Proposition 98 spending for 2004-05 and about another \$1.3 billion for 2005-06. This brought the guarantee to \$51.3 billion for 2005-06 and increased the base funding level against which future Proposition 98 appropriations would be benched.

Meanwhile, in the spring of 2006, California policymakers realized that

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during the course of a single year, and disagreements about the amount that is due to K-12 schools and community colleges—collectively and separately—have all played a role. Figure I illustrates how this year's funding decisions were affected by these dynamics.

### *Funding in 2006-07 erases much of the state's debt to K-14 education*

Proposition 98 revenues for K-14 education (schools and community colleges) in the 2006-07 budget total \$55.1 billion, according to the Department of Finance. This is more than \$5 billion—or about 10%—over the amount funded in the 2005-06 budget.

The story of how the funding guarantee got to this level begins in 2004-05.

## Proposition 98 sets a minimum funding guarantee for education

When voters approved Proposition 98 as an amendment to the California Constitution, they sought to guarantee public schools and community colleges a level of funding that would at least keep pace with growth in student population and the personal income of Californians and at best increase the amount schools receive.

The calculation of the Proposition 98 minimum is based on the principle that schools and community colleges (K–14 education) should receive at least the same amount as they did the previous year, adjusted for changes in enrollment and per capita personal income. This is referred to as the “Test 2”<sup>\*</sup> guarantee.

The constitution allows state officials to temporarily reduce education funding below the minimum guarantee under two conditions. One is when the state’s General Fund revenues grow less than personal income. This is often referred to as “Test 3.”<sup>†</sup> The other is when two-thirds of the Legislature votes to suspend the guarantee for a given year.

In both cases, the amount saved in that year must begin to be restored to the minimum guarantee level in the next year that state General Fund revenues grow faster than personal income. This hypothetical example explains (in a simplified way) how it works:

- In Year One, the Test 2 minimum guarantee is \$45 billion. But the state’s fiscal condition dictates that Test 3 is in order, providing only \$43 billion.
- In Year Two, state revenues improve and the minimum guarantee must be provided. If the state can afford it, the calculation of the Year Two amount begins from the \$45 billion level because that was the minimum guarantee in Year One. Adjustments for enrollment and personal income growth then proceed from that level.

The state may not have enough revenue to cover the full amount of the resulting minimum guarantee in Year Two. It has solved this problem by funding below the guarantee and carrying forward a “maintenance factor” that keeps track of what full restoration of the guarantee would amount to. This can be restored gradually as the state’s General Fund revenue growth is sufficient to do so.

The Legislature always has the option of funding K–14 education above the minimum guarantee. When it does so, however, it also raises the base amount from which the guarantee is to be calculated the following year.

<sup>\*</sup> “Test 1” is that K–14 education receive about 41% of the state budget, a threshold the state easily exceeds each year.

<sup>†</sup> “Test 3B” ensures that growth in K–14 education spending per student is at least as large as the growth in all other state-funded programs on a per-capita basis.

state revenues were much higher than anticipated. This affected the 2005–06 fiscal year most immediately, with the state adding another \$2.3 billion to K–14 education retroactively.

With these additional funds counted as 2005–06 spending—and with projections of slowing revenue growth for the spring of 2007—the state set the 2006–07 K–14 funding level at

\$55.1 billion. This was based on “Test 3B” of Proposition 98. (See the box on this page for a further explanation of the various “tests” of Proposition 98.) However, there is some question about whether a \$426 million augmentation to after-school programs should legally be counted toward the Proposition 98 minimum guarantee. (This question is covered more fully on page 4.)

Of that \$55.1 billion, about \$49.1 billion is dedicated to K–12 education. Based on a projected average daily attendance of 5.96 million K–12 students, that statewide total amounts to more than \$8,200 per pupil. However, every K–12 school agency does not receive that amount for each student. Allocations vary by district. In addition, the figure includes all Proposition 98 funding—such as monies for childcare, adult education, regional occupational centers and programs, and county offices of education—divided by K–12 average daily attendance. (Money for programs such as childcare is used to serve both K–12 and preschool students, but determining how much goes to each age group is difficult, if not impossible.)

## Revenues for K–12 education come from multiple sources

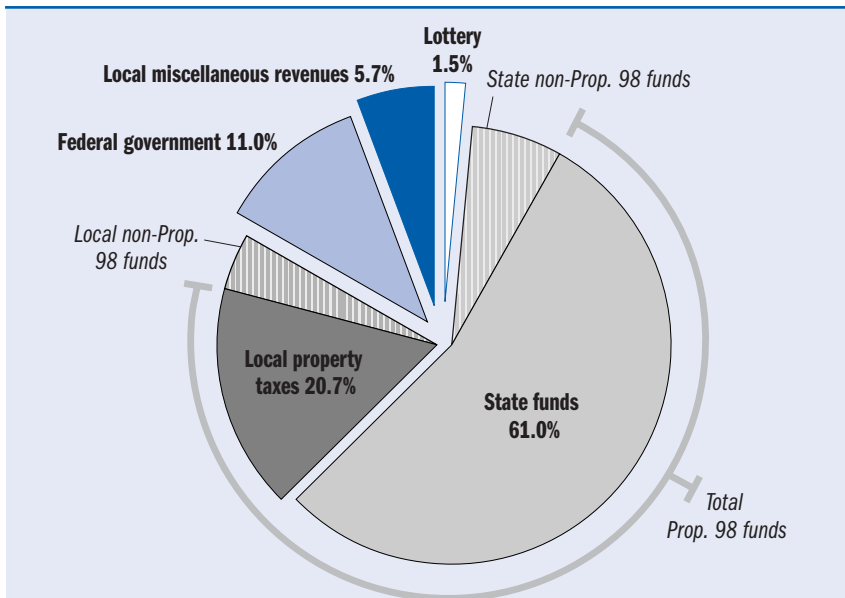
For K–12 school agencies—meaning primarily districts, but also including county offices of education and charter schools—the funding picture for 2006–07 is brighter than it has been since 2001, mainly due to funding allocated under Proposition 98. Both state funds and local property taxes are components of that funding. (See Figure 2.)

The other sources schools rely on—lottery funds, local miscellaneous revenues, and federal funding—are relatively static.

For the fifth consecutive year, the Lottery Commission is projecting a slight increase in revenues for education. If estimates are accurate, unrestricted funding provided by the lottery will increase this year by \$1.40 per pupil, and funding for instructional materials will increase by \$.76 per pupil. Both the increase and the total lottery funding have a small impact on K–14 funding because less than 2% of all revenues come from the lottery.

Federal funding decreased slightly from \$7.6 billion last year to \$7.4 billion in 2006–07. The prior year there was virtually no change in federal

figure 2 | 2006–07 K–12 funding comes from five sources



**Total estimated revenues for 2006–07 from all sources are \$67.1 billion, including:**

**State funds \$40.9 billion (61.0%)**

mostly from California sales and income taxes, including about \$3.8 billion not counted toward the Proposition 98 guarantee.

**Local property taxes \$13.9 billion (20.7%)**

which state lawmakers allocate to schools. Total includes \$1.9 billion not counted toward the Proposition 98 guarantee.

**Local miscellaneous revenues \$3.9 billion (5.7%)**

includes community and foundation contributions, interest income, developer fees, and revenues from local parcel tax elections.

**Federal government \$7.4 billion (11.0%)**

earmarked for special purposes, most notably Child Nutrition, No Child Left Behind, and Special Education.

**Lottery \$1.0 billion (1.5%)**

projected at about \$126 per student (ADA) in unrestricted revenues plus \$28 per ADA to be used only for instructional materials.

**Projected California public school average daily attendance (ADA)\*:**

5.96 million K–12 students (for the purposes of Proposition 98) plus about 565,000 students in adult education and regional occupational programs.

\*ADA is the total number of days of student attendance divided by the total number of days in the regular school year. A student attending every day would equal one ADA.

Note: The total does not add up to 100% due to rounding.

DATA: CALIFORNIA DEPARTMENT OF EDUCATION (CDE)

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dollars. These most recent figures stand in sharp contrast to the large federal investment in education reform that marked the launch of the No Child Left Behind Act in 2002–03.

**Proposition 98 funds include state funds and local property taxes**

In 2006–07, K–12 Proposition 98 spending includes about \$49.1 billion in state and local property tax dollars.

School agencies will get another \$5.7 billion that is not part of Proposition 98. Those funds include a local and state portion. The local property tax portion is largely local debt service (the taxes school districts collect and use to pay for local general obligation bonds). The state portion includes repayment of bonds, contributions to the State Teachers Retirement System (STRS), and certain expenditures that cannot be counted toward Proposition 98, such as the budget for the California Department of Education (CDE).

A pending issue is whether \$426 million for after-school programs should be included in the Proposition 98 guarantee. Proposition 49 requires the state to provide funds to support the creation and operation of after-school programs in local schools. The Schwarzenegger administration counts this funding toward the Proposition 98 guarantee in its official budget documents. Other school finance experts cite the language of Proposition 49, which states that when the large increase in spending for after-school programs is triggered, it “shall be appropriated in addition to the sums required by, and shall not be considered towards fulfilling the funding requirements of, [Proposition 98].” Although this difference in interpretation does not affect total funding for schools this year, it is important because it will determine the level of the guarantee going forward. (See the box on Proposition 98 on page 3).

**About \$2.5 billion is provided as one-time funds**

Along with a sizable increase in ongoing funding, school districts are receiving a large allocation from the state in 2006–07 for one-time purposes. These funds, which total about \$2.5 billion, are part of what the state is “paying back” to education from prior years. Policymakers were careful to designate



these funds as a short-term injection of resources and not a continuous supply.

These one-time funds enabled the state to largely meet its past Proposition 98 obligations. That includes the increase in the 2005–06 minimum spending level under Proposition 98 as described above, settling up some other shortfalls in past Proposition 98 funds, and allocating funds from the Proposition 98 Reversion Account. This account is used to reclaim funds appropriated as part of Proposition 98 spending but either not spent by K–14 agencies before the end of the authorized expenditure period or not allocated. The latter occurs, for example, when a program is created in statute but implementation is slow in getting off the ground. The appropriated money counts toward the Proposition 98 minimum spending level and must eventually be distributed to schools. In 2006–07 the state is issuing \$226 million from the Reversion Account to K–14 education.

### **Increases support a hodgepodge of objectives**

State policymakers provided increases to a wide and diverse set of K–12 programs in 2006–07. General purpose (or “revenue limit”) funding will grow by a sizable amount due to a large cost-of-living adjustment (COLA), the erasure of previous deficit funding, and increases to bring about more parity among districts. In addition, policymakers provided a full COLA for most categorical programs, larger increases for a few programs, and funds for several new initiatives, some of which have ongoing funds and some of which receive only one-time support.

### **A large COLA and other augmentations raise general purpose funds**

California school districts receive revenue limit funding as the core of their general operating budgets. They use this money for the day-to-day oper-

ation of schools, including everything from salaries and benefits to the utility bill. Statewide, personnel costs represent about 86% of the average school district’s operating budget.

The total general operating money a school district receives each year is based on a specific amount per pupil. The amount is calculated using historical funding levels and a formula set by law. Within each of six district types—large and small elementary, unified, and high school—the amount per pupil is intended to be relatively equal. A district’s total revenue limit allocation is the product of its per-pupil amount multiplied by its average daily attendance (ADA).

Revenue limit funds represent, on average, about two-thirds of districts’ total revenues. The other one-third comes in the form of categorical programs for which districts receive funds in varying amounts depending on their student populations, district characteristics, and the programs they choose to operate.

A large portion of the ongoing funding increase that K–12 education received this year provided a 5.92% cost-of-living adjustment for revenue limits and most categorical programs. Although that is not the biggest COLA ever in percentage terms, it is the biggest in dollar amount. In total across all K–12 districts, the COLA will amount to \$2.6 billion. K–12 districts do not receive a percentage increase on their base revenue limits but instead get a flat dollar amount per pupil. The per-pupil amount is arrived at by multiplying the COLA percentage (5.92%) by the previous year’s average base revenue limit. According to estimates by School Services of California, unified districts will receive about \$308 per pupil, elementary districts about \$295, and high school districts about \$354.

In addition to the COLA, policymakers allocated \$659 million to make adjustments in revenue limit funds. The

first adjustment was to eliminate the most recent “deficit factor” created in 2003–04 when the state reduced revenue limit funding for districts and county offices of education and did not provide a COLA. This created a 3% revenue limit deficit. The state paid back part of the deficit in 2004–05 and 2005–06 and will spend \$309 million in 2006–07 to eliminate it.

The other revenue limit adjustment is an addition of \$350 million to reduce historical variations in funding among districts. This is known as “equalization aid.” The money will be allocated based on a recently established method, which sets a target amount for districts’ per-pupil funding. The target amount varies by district size and type.

### **California’s Cost-of-living Adjustment**

This year’s 5.92% cost-of-living adjustment (COLA) is a substantial increase that seems higher than the rate of inflation. State law requires that the COLA be based not on the state’s Consumer Price Index (CPI) but rather on the Implicit Price Deflator for State and Local Government Purchases of Goods and Services. Energy and construction costs that have risen faster than wage and salary inflation generally have helped drive the Implicit Price Deflator beyond the level of the CPI.

### **Impact of statewide enrollment decline varies by region**

The overall allocation for revenue limit funding also considers student enrollment growth or decline, and 2006–07 marks a turning point in that regard. The state calculated a savings of \$220 million due to declining enrollment statewide. However, with a few exceptions, categorical programs are funded based on student counts in 2005–06, plus the COLA.

This is the first time in more than two decades that the state has seen an

**figure 3 | Major State Funding Increases for K–12 in 2006–07**

<b>Ongoing Funding Increases</b>	
5.92% COLA to revenue limits and categorical programs (less \$220 million from revenue limits due to decline in enrollment)	\$2.4 billion
Other revenue limit augmentations <ul style="list-style-type: none"> <li>• Equalization - \$350 million</li> <li>• Deficit factor elimination - \$309 million</li> </ul>	\$659 million
New programs or increases for existing programs <ul style="list-style-type: none"> <li>• Economic Impact Aid increase and formula change - \$350 million</li> <li>• Counselors - \$200 million</li> <li>• Arts and music block grants - \$105 million</li> <li>• Preschool expansion - \$50 million</li> <li>• Help for students struggling to pass the exit exam - \$49.6 million</li> <li>• Physical education teachers for grades K–8 - \$40 million</li> <li>• Professional development for teachers of English learners - \$25 million</li> <li>• Senate Bill 1209 (teacher mentors, alternative certification, Personnel Management Assistance Teams) - \$21 million</li> <li>• Oral health assessments - \$4.4 million</li> </ul>	\$845 million
After-school program augmentation as required by Proposition 49 (includes \$2 million for additional CDE staff)	\$428 million
<b>One-time Funds</b>	
Mandate reimbursements (\$927 million for past years, \$30 million for 2006–07)	\$957 million
Discretionary block grants to districts and schools	\$534 million
Block grants for art, music, and physical education supplies and equipment, and staff development	\$500 million
Facilities funds for specific purposes <ul style="list-style-type: none"> <li>• Preschool facilities - \$50 million</li> <li>• Career technical education equipment and facility reconfigurations - \$40 million</li> <li>• Charter school facilities grant program (also funded in 2005–06) - \$9 million</li> </ul>	\$99 million
Instructional materials <ul style="list-style-type: none"> <li>• Block grants for instructional materials, libraries, or technology - \$100 million</li> <li>• School garden supplies - \$15 million</li> <li>• Materials for students who have failed the high school exit exam - \$5.5 million</li> </ul>	\$120.5 million
Instructional improvement for English learners <ul style="list-style-type: none"> <li>• Supplemental instructional materials - \$30 million</li> <li>• Pilot research program to identify best practices - \$20 million</li> </ul>	\$50 million
Teacher recruitment and support <ul style="list-style-type: none"> <li>• Recruitment and retention in Decile 1–3 schools (based on the Academic Performance Index) - \$50 million</li> <li>• Home visit program - \$15 million</li> <li>• Mathematics Teacher Partnership Pilot Program - \$1.8 million</li> </ul>	\$66.8 million
Support for district operations <ul style="list-style-type: none"> <li>• Fiscal solvency planning grants to districts and county offices related to retiree health care benefits - \$10 million</li> <li>• CALPADS (data system) participation assistance grants - \$9.5 million</li> <li>• K–12 High Speed Network support grants - \$4 million</li> </ul>	\$23.5 million
Expansion of child wellness programs <ul style="list-style-type: none"> <li>• Healthy Start Program grants for new programs - \$10 million</li> <li>• Early Mental Health Initiative for new grantees - \$5 million</li> <li>• School breakfast start-up grants - \$3 million</li> </ul>	\$18 million

DATA: 2006–07 BUDGET ACT AND OTHER LEGISLATION

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enrollment decrease in K–12 schools overall. (In contrast, community college enrollments are on the rise.) The Department of Finance’s projections through 2014 show continued slow growth in K–12 schools overall—an

average of 0.34% per year. (The highest rate since the 1960s was 3.7% in 1990.) However, the rates will vary tremendously among regions. At the extremes, Placer County is expected to grow 35% between 2004–05 and

2014–15 and Modoc County is expected to decline 19%. And within counties, growth rates can vary substantially among districts. While regional job and housing markets greatly affect local enrollments, charter schools are

having an impact in selected districts (if charters are thought of as distinct from the districts within which they are located). Regardless of the cause, about half of California K–12 districts have experienced declining enrollment over the last two years.

Continuously shrinking enrollments can mean reduced budgets for a K–12 school district because general purpose revenues are based upon average daily attendance. Adjusting to ongoing falling revenues is difficult because the declines in enrollment likely come from multiple schools and grades, but expenditure cuts generally have to be concentrated on particular schools or staff members. Districts are buffered from the impact of enrollment declines for one year because the state offers an adjustment that allows districts to be funded based on the higher of the current or previous year's attendance. The 2006–07 budget has nearly \$400 million for such “declining enrollment” districts.

### *Lawmakers make some notable changes in categorical programs*

Along with increases in general purpose funding, California's school agencies are seeing some large augmentations to existing categorical programs and the creation of others. (See Figure 3.) The Legislature supported a substantial increase in a program designed to help poor students and English learners—Economic Impact Aid—while an increase for after-school programs occurred because of a funding trigger built into Proposition 49.

### **Economic Impact Aid increase also includes formula change**

After providing a 5.92% COLA to the Economic Impact Aid (EIA) program, policymakers added \$350 million, for a total of \$973 million. (The \$350 million includes \$29.3 million for a 5% growth in the number of students served.)

State leaders also changed the formula by which EIA funds are allocated to districts and charter schools. Eligibility had been based on the number of pupils who received aid from the California Work Opportunity and Responsibility to Kids program (CalWORKS). Under the new law, EIA will be distributed based on census-based counts, such as those used to determine schools' eligibility for Title I Basic Grants (a large source of federal support for the education of disadvantaged children). This alignment simplifies the allocation process for EIA and makes it more transparent.

The formula change is also designed to address inequities. In the past, some districts with similar needs have received very different amounts. Legislators ensured that the changeover to a new formula would not cause an immediate loss in funding to school agencies. But if an agency's funding level had been relatively high, its funding may not grow as fast as that of other agencies.

Another important change is the adjustment of funding weights so that English learner status is given more weight. In the past, poverty was by far the most important factor in determining a district's EIA funding.

### **Both state and federal after-school programs grow dramatically**

The After-school Education and Safety Program (ASES) provides funding for schools to offer both academic support and enrichment activities, such as recreation and athletics, to students in grades 1–9. In 2005–06, funding totaled \$121.6 million. Provisions of Proposition 49 require this year's increase, putting total state funding at \$550 million (including \$2 million for the CDE to implement the expanded program).

In addition, schools will receive \$163 million in federal funds for the

21st Century Community Learning Centers (CCLCs), which provide enrichment opportunities to help disadvantaged students improve their academic achievement.

Related legislation, Senate Bill 638, affects how the state will implement both the ASES and CCLC programs. One key change involves the way in which local entities will access funding: they will now apply for a three-year, renewable grant rather than run a program and then be reimbursed for it. In addition, schools that convert their CCLC to an ASES program will receive priority for funding.

Another substantial change is an increase in the per-pupil day rate from \$5 to \$7.50. That change will in turn affect minimum school-level grants and “large-school adjustments” (increased per-pupil rates for schools with enrollments above a specified number). The per-pupil day rate for before-school programs will increase as well, going from \$3.33 to \$5.

### **Additional funds support students struggling to pass the exit exam**

In 2005–06 the state began an ongoing appropriation of \$20 million to help schools provide supplemental instruction for 12th-graders who had not passed the California High School Exit Exam (CAHSEE). The funding was set at \$600 per pupil, and schools were rank-ordered for funding eligibility by the number of seniors who had not passed the exam. Some schools were fully funded, while others received little or no help. Legislators that year also set aside \$48 million on a one-time basis, primarily to help students with disabilities pass the exam.

The 2006–07 budget provides \$69.6 million for all 12th-graders (those with and without disabilities) who have not yet passed the CAHSEE.

## Mandate reimbursements flow from the state once again

For the last few years, the state has appropriated only token sums to reimburse school districts for costs incurred in complying with state mandates. The 2006–07 budget breaks from recent practice and provides \$927 million to reimburse K–12 districts for the costs of complying with mandates in prior years. However, only \$30 million in anticipated mandate-claim reimbursements is provided for 2006–07—far below the \$164 million expected by the Department of Finance for the year.

Many of California's K–12 school agencies are concerned not only with reimbursement for the cost of compliance, but also with the audits that the State Controller's Office (SCO) conducts to ensure that cost claims are legitimate and that claimants do not receive undeserved state monies that could go to deserving districts.

Up until about three years ago, school agencies generally did not find SCO audits onerous; but in recent years, the SCO has become more aggressive in its demands for documentation of expenses. Some districts have found it difficult to meet SCO's requests for detailed, contemporaneous documentation and, as a result, have had large percentages of their cost claims denied. Although districts can appeal such denials, the process can take years.

Several school districts that have undergone audits and had cost claims rejected are seeking relief through the courts. Led by Clovis Unified, they are arguing that the audits "were not consistent with applicable government accounting standards and, in essence, amounted to an arbitrary and capricious attempt to reduce the state's liability for mandate reimbursements," according to School Services of California, a Sacramento firm that advocates for school districts. School Services reports that the districts' petition covers \$17.5 million in disallowed claims from 15 audits of seven mandated programs. The districts are pressing the court to order the SCO to provide the funding that has been denied through those audits. For its part, the SCO had asserted that the suit should not go to trial because the districts have not exhausted the administrative means of seeking relief (the appeals process). In early September, Judge Lloyd Connelly sided with the petitioners, and it appeared that the case would be heard.

Also in September 2006, a coalition of school and local government agencies filed a lawsuit against the state over its denial of reimbursement for three specific programs—the School Accountability Report Card, the Open Meetings Act (the "Brown Act"), and the process of calculating and claiming reimbursements. The state had reimbursed local agencies for meeting these mandates until a 2005 law, Assembly Bill (AB) 138, allowed the Commission on State Mandates (COSM) to reconsider that policy. The petitioners assert that AB 138 and the actions of the COSM run counter to the California Constitution's guarantee that local agencies be compensated for the cost of complying with new state requirements.

However, the per-pupil amount is capped at \$500. With this much larger pot of money and a smaller per-pupil amount, the California Department of Education (CDE) is predicting that it will be able to allocate funding to serve all eligible seniors. Any remaining funds may be used to help I1th-graders.

### *New programs target a multitude of objectives*

In years such as this one when California can afford to provide substantial funding increases to K–14 education, policymakers typically balance demands for local flexibility with a desire to ensure that special programs, new state initiatives, and specific

subject areas or students will receive attention. A wealth of new programs resulted from this impulse in 2006–07.

### *Funding for counselors is ongoing with an ambitious goal*

For a number of years, California has ranked at the bottom among the states in the ratio of guidance counselors to students. The most recent data (from 2004–05) show that the state's ratio of K–12 students to counselors is about 1,000 to 1—about twice the national average. In 2006–07 policymakers began appropriating \$200 million annually to bolster the number of counselors serving students in grades 7–12. The stated goal of the legislation is to bring the student-counselor ratio down to 500 to 1 in grades 7–8 and 300 to 1 in grades 9–12.

Schools may spend this money only to provide counseling services by people who hold a valid pupil personnel services credential. This credential is an umbrella for four specializations: counseling, social work, psychology, and child welfare and attendance services. In addition, agencies must adopt a program that includes all of the following:

- A meeting with each student and, if practicable, his/her parents to explain the student's record, educational options, and coursework necessary to graduate and pass the high school exit exam.
- Identification of struggling students and lists of courses necessary to transition successfully to the next level of schooling. For seniors, the list must include options for continuing their education if they fail to meet graduation requirements. Such lists must also go to parents, and meetings with these struggling students must happen during specified timeframes.
- In addition, districts must submit an annual report on their counseling activities to the CDE.



The funding will be distributed on a per-pupil basis, but the Legislature created minimum-grant requirements to ensure that schools with small numbers of students receive meaningful amounts. (Charter schools are not eligible for minimum grants, however.) The minimum-grant schedule provides:

- \$5,000 for schools with 100 or fewer students, resulting in funds of \$50 or more per student;
- \$10,000 for schools with 101 to 200 students, resulting in funds between \$99 and \$50 per student;
- At least \$30,000 for schools with more than 200 students, resulting in a maximum of \$149 per student (in a school with 201 students).

Districts must use this money to supplement—not supplant—funds that they already spend on counseling. Although that requirement ensures that the extra funds will be spent as intended, it means that districts that have previously directed significant discretionary funds into counseling services may be frustrated by the requirement because they have already met the Legislature’s intent and would prefer to receive funding increases for other pressing needs.

### State policymakers also target “neglected” curriculum areas

State policymakers also directed some resources to address areas of K–12 instruction they believed had been somewhat neglected because of recent lean times and the emphasis on the core areas of English, math, science, and social science. They earmarked funds for art, music, and physical education, including money for both staffing and equipment/materials.

California will begin allocating \$105 million annually for arts and music block grants to help districts hire and train staff and buy instructional supplies that are aligned to the

state’s academic content standards. As with some other programs in the 2006–07 budget, this program allots minimum grants to ensure that small districts will receive meaningful amounts. These recurring revenues would best be used for ongoing expenses, such as salaries and benefits, because the state is also granting one-time funds for discrete purchases in related areas (discussed below).

The state will also allocate \$40 million per year to K–8 schools to increase the number of credentialed physical education teachers. Grants of \$35,000 will be awarded to randomly chosen schools. If a school has not been providing students with the required minimum amount of physical education, it must first use the funds to correct any deficiencies.

Finally, \$500 million in one-time grants will be allocated to schools on a per-pupil basis for art, music, and physical education supplies and equipment. Education agencies can also spend their grants on professional development for teachers of those subjects. The \$500 million will provide about \$82 per pupil. To ensure somewhat even distribution, the law requires districts to spend at least \$2,500 per school. Districts may spend these funds in one year or over multiple years; but because they are one-time funds, districts cannot count on them to pay for recurring costs, most notably personnel.

### Funds aimed at K–12 instructional improvement include a focus on English learners

The state also boosted funding for instructional materials—with some targeted specifically to English learners—and for programs to improve teacher practice, including pilot programs aimed at finding out “what works.”

The 2006–07 budget sets aside \$100 million in one-time money for a

K–12 instructional materials block grant. Funds will be distributed on a per-pupil basis for instructional materials, library materials, or one-time educational technology costs. In addition, state leaders appropriated other one-time funds for more specific instructional materials needs. For example, \$5.5 million will help districts purchase state-approved materials to aid students who have failed the high school exit exam. Schools will receive another \$30 million to buy instructional materials to help English learners (ELs) become proficient in English. Districts could receive up to \$25 per EL. The materials must be aligned to the state’s academic content standards, as verified by the CDE and approved by the State Board of Education.

EL-specific appropriations also include the creation of a \$20 million pilot research project. The project will be conducted from 2007–08 through 2009–10. Its aim is to identify best practices in curriculum, instruction, and staff development for teaching ELs. A group of K–12 school agencies—representing the geographic diversity of the state and a variety of approaches to EL instruction—will receive \$200 per EL for the three-year period. The money is for supporting or expanding existing programs (not starting new ones), and the receiving agency must match the state grant.

In addition, legislators provided an ongoing appropriation for professional development for teachers with a high concentration of ELs in their classrooms. This \$25 million program is an add-on to the Math and Reading Professional Development Program (MRPDP), created by Assembly Bill 466 in 2002. In the MRPDP, teachers and paraprofessionals receive training in the use of state-approved instructional

**figure 4 | State and federal money is earmarked for special purposes**

Statewide about one-third of the funds that schools receive in 2006–07 are from categorical programs designed to serve specific purposes. School agencies receive varying amounts depending on district characteristics, the programs they choose to operate, and the proportion of the state's 6.3 million students that they serve. Only the major state and federal programs are shown here.

<b>Major State Programs (all dollar figures are in millions)</b>	<b>2005-06</b>	<b>2006-07</b>
Special Education	\$2,890	\$3,066
Class Size Reduction (K-3)	1,676	1,763
Child Care and Development (includes preschool)	1,221	1,389
Targeted Instructional Improvement Block Grant	876	1,034
Economic Impact Aid	587	973
Adult Education (includes \$15.3 million for adult education in correctional facilities in 2005-06 and \$16.4 million in 2006-07)	617	703
Pupil Transportation	516	602
Regional Occupational Centers and Programs	381	458
Library Improvement Block Grant (includes library materials and school improvement programs)	422	447
Instructional Materials	361	404
Summer School/Supplemental Instruction	291	376
Deferred Maintenance	268	270
Professional Development Block Grant	249	264
High Priority Schools Grant Program	239	249
High School Counseling (7th-12th grade)	0	200
Pupil Retention Block Grant (includes supplemental instruction, 10th grade counseling, dropout-prevention programs, etc.)	87	120
Child Nutrition	97	106
Arts and Music Block Grant	0	105
Teacher Credentialing Block Grant (includes BTSA)	88	103
Class Size Reduction (9th grade)	110	102
Charter School Categorical Programs	62	101
School Safety Block Grants	16	97
Year-round Education Grant Program	88	94
Student Assessment	86	89
CAHSEE (California High School Exit Exam) Intensive Instruction and Services	20	70
English Learners (ELs)	58	61
Professional Development for Math and Reading	32	57
Cal-SAFE (California School Age Families Education)	53	56
Gifted and Talented Education (GATE)	46	53
Community Day Schools	42	50
Teacher Retention and Recruitment	0	48
<b>Major Federal Programs (all dollar figures are in millions)</b>	<b>2005-06</b>	<b>2006-07</b>
ESEA Title I - Extra Support for Students who Live in Poverty	\$2,089	\$2,079
Basic Grants	1,727	1,680
Reading First	152	159
Migrant Education	125	154
School Improvement	69	72
Homeless Children Education	9	8
Advanced Placement Fee Waiver	4	3
Neglected and Delinquent Children	3	3
Child Nutrition	1,617	1,627
Special Education	1,149	1,151
Child Care and Development Programs (includes CalWORKS)	963	963
ESEA Title II - Improving Teacher and Administrator Quality	416	382
Part A - Improving Teacher Quality	322	316
Education Technology	64	34
Math and Science Partnership Grants	24	26
Subject Matter Projects	4	4
Principal Training Program	2	2
ESEA Title IV - 21st Century Schools	222	197
After-school Programs	181	163
Safe and Drug Free Schools and Communities	41	34
ESEA Title III - English Learners and Immigrant Students	148	148
Vocational Education	138	141
Adult Education	79	79
ESEA Title V - Innovative Programs	51	27
Comprehensive School Reform Program	30	16
Innovative Programs	21	11
ESEA Title VI - Assessment Funding (includes STAR, CELDT, and CAHSEE)	33	33

Note: The dollar figures do not include appropriations from the Proposition 98 Reversion Account.

DATA: 2005-06 AND 2006-07 BUDGET ACTS AND OTHER LEGISLATION

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materials for math and English. The add-on training, only offered to teachers who have participated in the MRDP, would emphasize English language acquisition and development. Senate Bill (SB) 472 contains the implementing legislation for this new program. (See “To Learn More” on page I4.)

Efforts to help teachers become more effective do not end there. For example, a one-time \$1.8 million allocation will fund a new pilot project to increase the number of qualified secondary-level math teachers, improve the capacity of existing secondary-level math teachers, and provide professional development in how to help struggling students pass the math portion of the high school exit exam. Further, in an effort to improve student achievement, state leaders are spending \$15 million in one-time monies to revive a program that pays teachers to visit the homes of their students or hold community meetings to strengthen the home-school bond.

Finally, the budget appropriates \$50 million in one-time funds to help schools in the bottom 30% of the state’s Academic Performance Index (API) recruit and retain teachers. If its application for funding is approved, a school will receive \$50 per student. The money is to be used to improve the educational culture and environment, which can include providing a safe, clean environment; support services for teachers and students; differential compensation for highly qualified teachers or principals; small-group instruction; or collaborative staff time.

Along with budgetary action, state leaders amended policies related to the teaching profession. SB 1209, for example, represents a multipronged attempt to address the need for a qualified teacher in every classroom. It affects entry into the teaching profession, teachers moving to California, and the distribution of interns within districts. Among other provisions, it offers incentives for experienced teach-

ers to act as mentors to less-seasoned faculty. The budget contains \$21 million to implement the bill. (See “To Learn More” on page I4.)

### Discretionary grants give schools and districts one-time money for local priorities

Along with one-time dollars earmarked for specific purposes, state leaders are providing some funds to districts and school sites in flexible one-time block grants. Legislators took this approach in 2000–01 when California set aside \$425 million, with 58% for districts and 42% for individual school sites. In 2006–07 the state is allocating \$534 million, with 25% for districts and 75% for schools.

The state will allocate funds on a per-pupil basis. School sites—including traditional public schools, charter schools, regional occupational centers and programs, adult education schools, and alternative schools—may use the funds for one-time purposes such as instructional materials, classroom and lab supplies, library materials, educational technology, deferred maintenance, professional development, and efforts to close the “achievement gap” (test-score differential among the major ethnic groups). In addition to the purposes described above, districts and county offices may also use their grants for outstanding one-time fiscal obligations or home-to-school transportation. The funds may be spent over multiple years.

### Some funds aim at student readiness and wellness

With extra funds available, policymakers also chose to strengthen or reinvigorate some existing state programs aimed at student readiness and wellness. These programs have fallen under the K–12 umbrella in part because they address the need to ensure that children come to school physically,

## Microsoft settlement provides some additional funds for technology

In the settlement of an antitrust lawsuit between the state of California and Microsoft, the software corporation agreed to provide funding for public schools to purchase hardware, software, technical support, and training for educators. Out of the \$1.1 billion settlement, schools receive about \$400 million. Funding is available only to schools in which 40% or more of the students are eligible for free/reduced-priced meals. (High schools with lower percentages but serving students who come from elementary and middle schools meeting the 40+% threshold are also eligible.) The California Department of Education estimates that the per-pupil vouchers will be between \$50 and \$100. The application for funding became available in late September.

emotionally, and cognitively prepared to succeed in the classroom.

In June 2006 California voters rejected Proposition 82, which would have made preschool available free for all 4-year-olds in California regardless of family income and would have funded that effort by raising income taxes on very high earners. The governor campaigned against the issue largely because it would have raised taxes, and he proposed instead a more modest expansion of preschool availability in low-income areas. The Legislature agreed to include this augmentation in the budget.

The budget contains an ongoing appropriation of \$50 million for expanded preschool services in the attendance area of elementary schools in the bottom 30% of the API rankings. Of the \$50 million appropriated, \$45 million is for the expansion or creation of preschool programs. Such programs will be reimbursed at the same rate as the state preschool program. All children who would

attend kindergarten in the following school year are eligible unless the program is oversubscribed. In that case, no more than 20% of children in the program can be from families with incomes exceeding the income-eligibility threshold, which is 75% of the state median income.

The other \$5 million is available, at a rate of \$2,500 per classroom per year, for staff development, compensation and support costs for preschool program coordinators, family literacy services, and instructional materials.

The implementing legislation, Assembly Bill 172, also allows for the redirection of existing childcare funding into preschool programs if that funding is not claimed by childcare programs. Going forward, the superintendent of public instruction may channel up to \$5 million of unused state childcare funding to help half-day preschool programs expand to full-day.

Along with expanding preschool opportunities, state leaders increased funding for other programs that affect all students' ability to learn in school. For example, the budget includes \$10 million for Healthy Start programs, which coordinate the delivery of integrated academic, nutritional, health, and other services to children and families. This appropriation marks a turnaround in funding for Healthy Start. It received \$39 million in 2001–02, \$2 million in 2002–03 through 2004–05, and no funding in 2005–06. The funds provided in 2006–07 are earmarked for schools that have not previously received a Healthy Start operational grant. Recipients will get both collaborative planning and operational grants that may be expended over a seven-year period. The grants will be awarded on a competitive basis.

Other examples include:

- \$5 million in one-time funds for a new cohort of Early Mental Health

Initiative grantees. This program is aimed at children in kindergarten through third grade who have minor school-adjustment difficulties. The money is used for personnel, coordination between parents and teachers, and monitoring and evaluation.

- \$37.8 million in ongoing funds to increase the per-meal reimbursement rate for Child Nutrition (vetoed in 2006–07 but expected to be included by 2007–08). Another \$3 million in one-time funds provides start-up grants for school breakfast and summer food-service programs.
- \$4.4 million in ongoing funds for schools to administer a new requirement that children entering kindergarten have oral health assessments.

### One-time monies support school district operations

The 2006–07 budget provides resources to help districts with financial management, data management, and education technology. Although the sums are relatively small, they perhaps indicate a recognition on the part of state policymakers that district offices generally play an important role and face substantial challenges in these areas.

First, \$10 million is provided to help school districts and charter schools to assess and plan for outstanding long-term fiscal obligations to retired employees for nonpension benefits. (Many K–12 agencies provide health benefits to their retired employees. With medical insurance costs rising rapidly, these agencies need to determine how they will meet these obligations over the long term.) Agencies may apply to the California Department of Education for “fiscal solvency planning” grants of up to \$15,000 after completing a plan for meeting those obligations. Counties are to review districts' plans, and charter-granting agencies are to review charter schools' plans.

Second, policymakers recognized that to make statewide student data systems work, districts need human and technological resources to collect and report information. The state is working on a data system that will allow individual student testing data to be tracked over time to better understand how student demographics and state programs affect student achievement. (The project is called the California Pupil Assessment Data System or CALPADS.) The 2006–07 budget includes \$9.5 million in one-time funds to help districts get the human and technical resources they need to build their capacity to fully participate in this test-data system.

Third, the state budget contains \$4 million in one-time funds to help local school agencies maintain their connections to the California Research & Education Network (CalREN)—a high-speed, high-bandwidth network linking K–12 schools, colleges and universities, and research institutions.

### State leaders earmark one-time funds for facility expenditures

State leaders have dedicated a portion of one-time monies to a variety of facilities-related purposes, including emergency repairs for low-performing schools as well as facilities for preschool/childcare, career technical education, and charter schools.

The *Williams v. California* lawsuit settlement dictated that the state spend \$100 million or one-half of the Proposition 98 Reversion Account, whichever is greater, to emergency facility repairs of schools in the bottom 30% of the state's API rankings. The allocation of money for repairs began in 2005–06 and is to continue until \$800 million is spent. Policymakers decided to go beyond the one-half mark in 2006–07 and have designated \$137 million for this purpose.



Along with providing \$50 million in ongoing funds to expand preschool programs, the budget adds \$50 million in one-time funding to the Child Care Revolving Fund to improve existing buildings and buy new relocatable facilities.

In addition, policymakers provided \$40 million for career technical education (CTE) equipment and minor facility reconfigurations. This will amount to about \$15 per 7th–12th-grader enrolled in a CTE class, but legislation ensures that grantees will receive a minimum of \$3,250. To receive a grant, the applying agency must provide a spending plan developed in consultation with its career technical advisory committee. Of the \$40 million appropriated, \$2.5 million is set aside specifically for middle and high schools to establish or enhance health-related career pathway programs.

Finally, the state budget includes \$9 million to continue funding the Charter School Facilities Grant program, which provides financial support for the rent or lease costs of charter schools serving primarily low-income students. This funding level is the same as that provided in 2005–06.

### Settling up includes the resolution of a lawsuit

The settlement between the state and CTA (see page 2) resulted in a promise that almost \$3 billion would be restored to K–12 schools and community colleges over seven years. These funds, which count toward the state’s Proposition 98 minimum obligation for 2004–05 and 2005–06, will not be counted toward the minimum required during the seven years of repayment.

The settlement’s implementing legislation is Senate Bill 1133, which appropriates these funds beginning with \$300 million in 2007–08. For each of the subsequent six years, the allocation will be about \$450 million. The funds

figure 5 | Planned Distribution of Senate Bill 1133 Funds

	2007–08	2008–09 to 2012–13 (annually)	2013–14
K–12 schools for Quality Education Investment Act (QEIA) program	\$268 million	\$402 million	Amounts in the final year to be adjusted so the total allocations are the same as the total settlement amount (not yet determined exactly)
Community colleges for career technical education (CTE) equipment and one-time grants for equipment, etc.	\$32 million	\$48 million (includes \$38 million for CTE and \$10 million for grants)	
<b>Total</b>	<b>\$300 million</b>	<b>\$450 million</b>	

DATA: SENATE BILL 1133

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for community colleges are for career technical education programs and block grants for one-time expenditures for facilities, equipment, instructional materials, and state mandates (such as the requirement to collect health fees from students). The funds for K–12 education are to pay for a new program targeted at the state’s lowest performing schools, the Quality Education Investment Act (QEIA). Figure 5 details how the funds will be provided.

The newly created QEIA program directs funding to schools in the bottom 20% of the Academic Performance Index rankings. Schools will have to apply for the program, and the funding is expected to be sufficient for about 40% of the roughly 1,500 schools in Deciles 1 and 2. The money will be used mainly for teacher professional development and reducing class sizes. Requiring fewer students per teacher will create a need for more teachers in these schools, and the new teaching positions may appear more attractive to experienced teachers if they know class sizes will be kept relatively small. A teaching-experience index, to be created as part of the program, will help monitor whether participating schools have teaching-experience levels on par with similar schools in the district. That parity is one goal of the program. In addition, partic-

ipating schools are expected to make progress in their academic performance as measured by the API in order to continue receiving the extra funds.

The superintendent of public instruction and the secretary of education will share responsibility for reviewing applications to participate. They will then recommend to the State Board of Education which applicant schools should be funded. The selected set of schools must represent the urban, suburban, and rural parts of the state and a diverse distribution of grade levels. The CDE expects to have program applications available in January, and the initial selection of schools could occur as early as March 2007.

The amount of funding schools receive will vary by the grade level of the students they serve:

- For each K–3 pupil, a school will receive \$500.
- For each 4–8 pupil, \$900.
- For each 9–12 pupil, \$1,000.

In the first year of the program, the per-pupil amounts will be one-third lower than those listed above because the overall program funding will be one-third lower.

Participating schools will be expected to integrate their plans for this grant with their existing Single Plan for Pupil Achievement. The “Single Plan” is the current means by which schools

## ● | To Learn More

To find out more about specific bills passed by the Legislature, go to [www.leginfo.ca.gov](http://www.leginfo.ca.gov), click “Bill Information,” type in a bill number, and click “Submit.” You will find the legislative history, previous versions, and committee analyses.

For further information about California’s school finance system and the 2006–07 budget, go to:

- The California Department of Finance, [www.dof.ca.gov](http://www.dof.ca.gov), and click on “2006–07 Budget” in the left column.
- The Legislative Analyst’s Office, [www.lao.ca.gov](http://www.lao.ca.gov), and click on *California Spending Plan 2006–07: The Budget Act and Related Legislation*.
- The Ed-Data Partnership, [www.ed-data.k12.ca.us](http://www.ed-data.k12.ca.us), to find and compare school district financial information.

In addition, EdSource will soon be launching a new website on school finance. Look for information about it in the upcoming weeks on [www.edsource.org](http://www.edsource.org).

explain their use of funds from specific state and federal categorical programs. The QEIA includes a variety of other expectations that involve use of funds, staffing, and progress made—particularly in 2008–09 through 2010–11.

Along with specific expectations for participating schools, the legislation sets responsibilities for school districts, county offices, and the CDE in relation to this program. Districts must play a part in the application process, make sure schools observe legal requirements for such things as parent participation, provide data needed to evaluate the program, and ensure that the principal in a funded school “has exemplary qualifications and experience by the end of the first full year of funding.” County offices are expected to monitor school sites’ API progress and compliance with program requirements. Schools that do not fulfill their obligations can be removed from the program.

The CDE’s first task is to develop and administer the application process; and by June 30, 2007, it must create the teaching-experience index. The bill appropriates \$1.1 million to fund nine CDE staff positions for this program.

## Community colleges and charter schools receive Proposition 98 funding too

The California Community Colleges (CCCs) also fared well in the 2006–07 budget. According to the Department of Finance, the budget provides almost \$9 billion for the community colleges, including \$4.3 billion from the state’s General Fund and \$1.9 billion from property tax revenues. (See Figure 6.) Total funding is about 9% more than the enacted 2005–06 budget provided.

In addition, the colleges will receive a greater portion of Proposition 98 dollars than they have received in the last several years. When Proposition 98 was enacted, the CCCs were slated to receive 10.93% of the K–14 education budget annually. However, that requirement has been suspended frequently, and the percentage has dipped to as low as 9.2%. In 2006–07, however, the colleges will receive 10.7%, according to the Legislative Analyst’s Office.

This year’s budget includes increased funding for equalization, enrollment growth, a cost-of-living adjustment, and a midyear fee reduction. Similar to the K–12 budget, it also includes funds for various purposes.

Ongoing increases include:

- \$312 million for a 5.92% COLA.
- \$159 million for the final installment of equalization funding.
- \$97.5 million to fund enrollment growth of 2% (or 22,688 full-time-equivalent students). However, that understates the effective amount. Because the CCCs already had a similar number of funded but unfilled student slots, the system effectively has funding to grow by slightly more than 4%.
- \$40 million to backfill revenues due to a cut in student fees from \$26 per unit to \$20 per unit, beginning in the spring of 2007.
- \$30 million increase in funding for noncredit courses, including basic-

skills courses for adults and advanced classes linked to courses leading to degrees and certificates.

- \$24 million to restore “matriculation” programs—counseling and assessment programs to help students achieve their educational goals efficiently.
- \$20 million for career technical education.
- \$16.8 million to expand nursing programs and placement opportunities.

One-time expansions for 2005–06 include:

- \$100 million for general purpose block grants to CCC districts. (Of this amount, \$22.3 million is from the Proposition 98 Reversion Account.)
- \$94.1 million for facilities maintenance, equipment, and hazardous materials abatement.
- \$40 million for new career technical education equipment.
- \$40 million to reimburse districts for past mandate claims that have been audited.
- \$19.7 million for implementation of a new funding formula.
- \$5 million for instructors’ professional development.
- \$2.5 million for stipends for recruitment and retention of nursing faculty members.
- \$1.4 million for extending high-speed Internet services to the colleges and offsite facilities that have not been connected.
- \$700,000 for electronic transcript exchange.

Also affecting the finances of the community college system is Senate Bill 361. The bill will, among other things, replace the colleges’ complex “Program Based Funding” mechanism with a clearer, more equitable one in which college districts will receive a foundation grant based on the size and number of colleges in the district. It will also provide more funding for noncredit

courses, such as high-demand, short-term occupational training classes. (See “To Learn More” on page I4.)

### Charter school funding is tied to K-12 amounts

California’s charter school movement continues to grow, and the state will have about 624 charters serving more than 210,000 students in 2006–07. These public charter schools operate more independently of school districts than “regular” public schools. Accordingly, the state has set up a funding system for charters that is somewhat independent of how districts are funded.

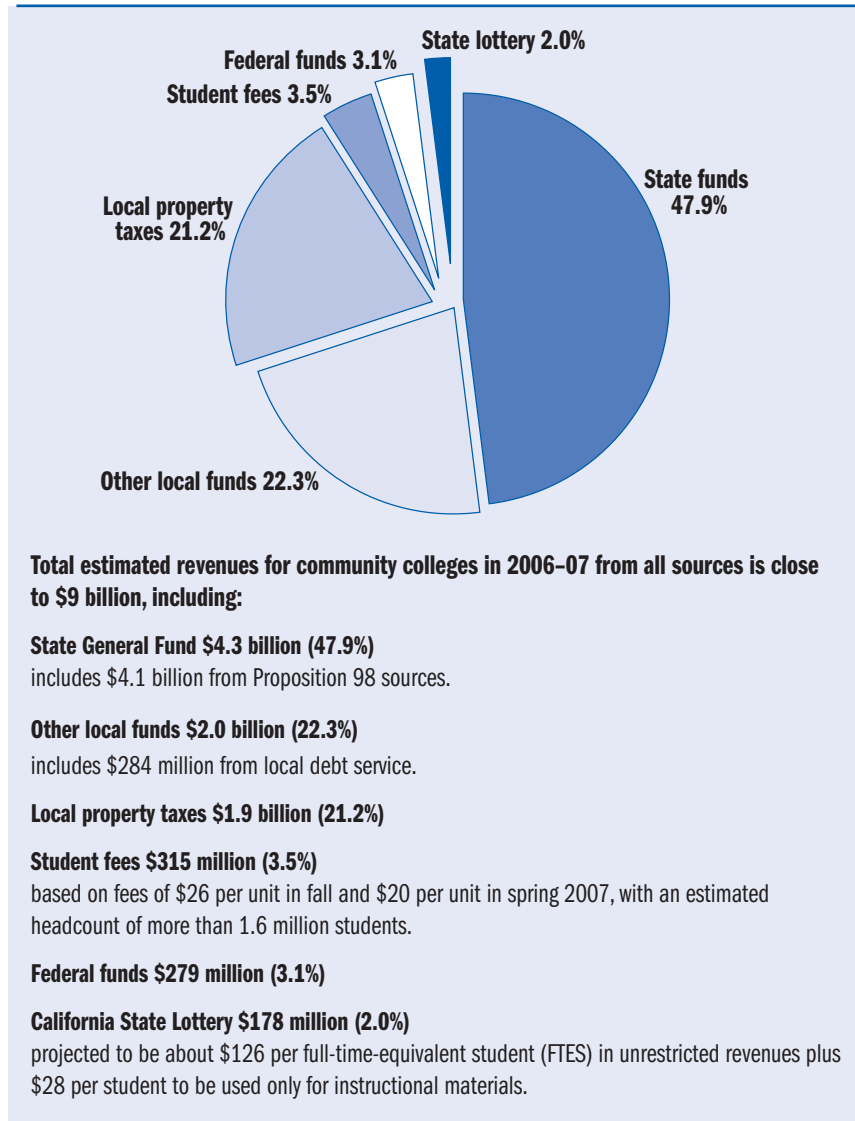
Charters receive per-pupil general purpose block grants similar to revenue limit funding. Four grant amounts are available, depending on the grade levels a school serves. The grant amounts are based on the average of what the state pays in revenue limit funding. School Services of California estimates that the per-pupil amounts in 2006–07 will be:

- \$5,345 for kindergarten–grade 3;
- \$5,421 for grades 4–6;
- \$5,579 for grades 7–8; and
- \$6,476 for grades 9–12.

The state also gives each charter school a categorical block grant in place of numerous categorical programs for which districts receive funding. The per-pupil amount for 2006–07 is slated to be \$400. However, the amount could be somewhat less because a fixed pot of money must be evenly divided among all charter schools. If attendance at charter schools exceeds the estimate on which the appropriation was made, the funding per student is reduced.

Charters may not apply separately for funds from categorical programs that are included in the block grant, but they may apply (either themselves or through their chartering agency) for other categorical funds. These include

figure 6 | California community colleges receive funding from multiple sources



DATA: CALIFORNIA DEPARTMENT OF FINANCE (DOF)

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some very large programs, such as K–3 Class Size Reduction, as well as small funding sources, such as grants for student councils.

Charter schools also receive extra general purpose money for each student they serve who is identified as low-income or an English learner. This is in lieu of the Economic Impact Aid (EIA) that school districts receive. Because of the increase to EIA funding discussed earlier, charters will likely get more than

\$200 per pupil in 2006–07, a substantial increase over the \$118 per pupil they previously received. (However, a school’s overall funding may not change in the same proportion due to changes to EIA eligibility enacted this year and discussed above.) Some charter schools also receive federal Title I funds to provide extra support to the same students. In addition, they receive the same per-pupil amount that districts get from the state lottery.

## The good times may not last

This year, leaders in Sacramento were able to pay off old debts to K–I4 education and retroactively raise spending for 2005–06. Because recent experience has shown that state revenues can fluctuate substantially, policymakers met a large part of their obligations with one-time monies, being careful not to promise continuous good times for school agencies.


For 2006–07 and the foreseeable future, state tax revenues are projected to grow slowly while expenditure commitments continue apace. The Legislative Analyst's Office projects an operating deficit for the state of \$4.5 billion to \$5 billion in 2007–08 and 2008–09. That creates an important context for school districts as they consider how to use the relative windfall they received this year, raising the need for them to simultaneously prepare for tougher times ahead.

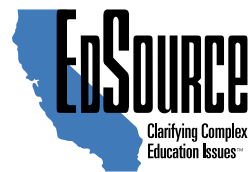
The 2006–07 budget produced an interesting mixture of one-time and ongoing funds for local districts, some of which are earmarked and some of which are for general purposes. The earmarked increases include a wide variety of programs, such as school gardens, career technical education, counseling, and support for English learners. Local school agencies are left with the task of combining those disparate new funding streams into a cohesive approach to raising student achievement. In addition, districts will need to manage their resources carefully over the next few years because this infusion of funds will probably not be sustained. Agencies with continuously declining enrollments will need to be especially strategic as their revenues will decrease faster than their costs.

The largest district in the state, Los Angeles Unified, will face particularly difficult challenges in the year ahead. Legislation requires LAUSD to imple-

ment far-reaching governance changes that will reduce the local board's authority and increase the powers of the superintendent and local mayors. Yet the governing board's legal challenge to the bill will likely slow those efforts, if not halt them altogether. Add to that the October appointment of a new superintendent and the divisions within the community over this mayoral-control issue, and it is clear that California's largest school district faces a tumultuous year.

Meanwhile, the Legislature and State Board of Education may try to mend fences after battling in 2006 over English learner curriculum issues. The board established criteria for evaluating reading/language arts/English language development instructional materials that excluded an approach favored by some in the Legislature. In retaliation, lawmakers stripped funding for the board's staff from the state budget bill. For this year, the state board will be able to maintain its staff by "borrowing" funds from other state agencies. But debates over the most effective instructional strategies for English learners will likely continue.

As another legislative session begins in January, many policymakers and educators will be eager to see the findings from the "Getting Down to Facts" research project sponsored by the Gates, Hewlett, Irvine, and Stuart foundations. The project, which includes nearly two dozen interrelated studies on the effectiveness of California's school finance system, will be published in spring 2007. Collectively, the studies could help the state develop a better understanding of how the existing school finance system supports or limits schools' ability to improve student achievement. That may in turn have implications for future state policy decisions regarding how California funds its public schools. 



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