



Clarifying
Complex
Education
Issues

School Finance Highlights

2002-03

Faced with a \$23-billion budget deficit—but constrained by state law from cutting public education—California’s leaders faced no simple choices as they crafted a state funding plan for 2002–03. They ultimately solved their immediate dilemma—but not their long-term financial problem—through a combination of actions. They increased state revenues slightly, made some modest cuts in expenditures, deferred some K–12 expenditures to next year, and borrowed from future state income. Simultaneously, they were compelled to create new initiatives, programs, and policies in order to capture an infusion of funds from the federal government and its No Child Left Behind Act (NCLB).

Proposition 98 protects education

California lawmakers were bound by law to provide more than \$41.5 billion in state and local funds for K–12 schools in 2002–03. This included an increase from last year of about \$730 million to cover enrollment growth of 1.37% (about 80,000 students) and about \$800 million more for a 2% cost-of-living adjustment (COLA). A variety of other revenues totaling about \$14.5 billion bring K–12 revenues from all sources to \$56 billion for the 2002–03 school year.

These budget decisions for 2002–03 were the culmination of a fiscal problem that first became apparent late in 2001. The 2001–02 state budget originally provided total revenues for schools of \$53.7 billion, including about \$32 billion in state funds. This represented an “over-appropriation” of \$7.7 billion above the minimum legal guarantee required by Proposition 98. Between July when the state budget was signed and the end of October 2001, state leaders recognized that the state had a serious and worsening budget problem.

In November Gov. Davis recommended budget cuts in the fiscal year already under way. Ultimately, more than \$2 billion was taken from Proposition 98 funding for K–12. In some cases, the cuts involved deferring expenditures rather than eliminating them entirely. Thus school districts received about \$1 billion of their 2001–02 funding in July 2002 instead of in the spring. The deferral effectively pushed the funding into the next budget year for state accounting purposes. This was possible because of the over-appropriation of Proposition 98 in 2001–02.

State leaders faced an even worse situation as they began debating the budget for 2002–03. While other state policy areas suffered substantial budget cuts, K–12 education emerged with a modest increase in funds. Reducing the funding was not legally possible

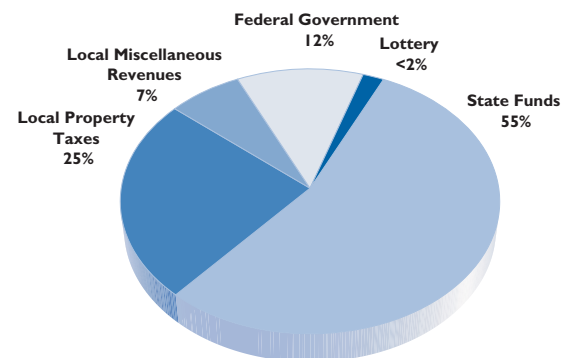
unless legislators were willing to suspend Proposition 98. Instead, they balanced the budget in part by again deferring some K–12 expenditures. This time the deferrals, from the 2002–03 to the 2003–04 school year, totaled \$681 million and included four major programs:

- Targeted Instructional Improvement Grants (TIIG), a deferral of \$184 million out of \$738 million;
- Home-to-school and Special Education transportation, a deferral of \$140 million out of \$520 million;
- School Improvement Program (SIP), a deferral of \$115 million out of \$429 million; and
- Supplemental grants, a deferral of the entire \$242 million allocation.

Taking all this budgetary maneuvering into account, the Legislative Analyst’s Office (LAO) examined the net funding increase for schools over the two years from 2000–01 to 2002–03. The estimated increase in per-pupil spending is 6.9% based on the total budget, but 3.4% when the deferrals are taken into account. That represents a modest increase in funds for most school districts but perhaps not enough to avoid cutting some programs. Cuts will be likely in districts that face large increases in costs, such as salaries, or that have experienced continued decreases in enrollment and thus in total revenues.

Figure 1

K–12 funding comes from several sources



Sources of funds for public schools:

- State funds \$30.9 billion (55%)**
- Local property taxes \$13.9 billion (25%)**
- Local miscellaneous revenues \$3.7 billion (7%)**
- Federal government \$6.5 billion (12%)**
- Lottery \$1 billion (<2%)**
- Total estimated revenues for 2002–03 \$56 billion**

Data: California Department of Education

EdSource 11/02

EdSource thanks the following foundations for their core support of our work: William and Flora Hewlett Foundation, James Irvine Foundation, Walter S. Johnson Foundation, and Stuart Foundation.

Federal support grows

Lawmakers' protection of public school funding in this year's tough budget climate demonstrates the extent to which education has become a critical political issue in California. The same concerns are evidenced nationally and have led to steady growth in federal education support. For many years federal programs provided about 8% of K–12 funding in California. Last year it was 10%, growing to 12% this year.

State leaders made other key decisions

Changes in existing state programs

- For the California English Language Development Test (CELDT), the state's rate of reimbursement to school districts increases from \$1.50 to \$5 per test-taker.
- State sanctions begin for schools that have consistently failed to show improvement based on the state accountability program.
- The Governor's Math and Reading Professional Development Program is cut from \$80 million to \$31.7 million annually for 2001–02 and 2002–03.
- The new \$400 million Instructional Materials Funding Realignment Program (IMFRP) combines and modifies three existing programs that give school districts money for textbooks and other instructional materials.
- A \$130 million increase in federal money for Special Education is largely being used to help offset the state's funding obligation.

New programs or allocations prompted by NCLB

- Lawmakers are spending \$7.5 million to build long-term capacity to help chronically struggling schools, creating the Statewide System of School Support (S4).
- California will spend \$7 million to create a new student database to track state test results for individual students over time and as they change schools.
- California receives about \$132 million in 2002–03 for the first-year implementation of the NCLB "Reading First" program.
- The new "Enhancing Education Through Technology" grant program provides California with about \$85 million to increase middle schools' education-technology capacity.
- The state now controls the allocation of about \$40 million in federal funds to create new 21st Century Learning Centers that provide after-school programs.

Voter decisions on Nov. 5, 2002

- Approval of Proposition 47 provides \$11.4 billion in state bonds for K–12 school facilities.
- Passage of Proposition 49 could provide \$550 million per year for after-school programs by 2004–05.

All federal dollars are earmarked for specific "categorical" programs. Most of the increase this year came as part of a reauthorization of the federal Elementary and Secondary Education Act (ESEA). The new law, commonly known as the No Child Left Behind Act (NCLB), represents a set of major new federal policies that promise to reverberate through many aspects of state policy and school district operations.


NCLB strengthens the federal commitment and resolve that all states should be actively pursuing a standards-based reform agenda. That includes high academic standards for all students; extra support to help students and schools meet those standards; and greater accountability for the results, particularly as measured by student performance on standardized tests.

California received NCLB funding this year based on federal officials' preliminary approval of the state's funding application. The final application must be submitted to the federal government by May 2003. The components of NCLB provide about \$2.5 billion or 38% of the federal money the state receives. This includes an increase of about \$737 million for new programs in 2002–03, plus ongoing funds for existing programs included under the NCLB umbrella.

What is on the horizon for California?

In 2002–03 and perhaps in the following year, schools face serious financial constraints and, in some cases, hardship. Yet schools can also expect continuing pressure for improvement.

These competing trends point to school finance as an important issue in California. Further, some recent actions suggest that the state may be approaching a critical juncture in its approach to funding schools. A lawsuit expected to go to trial next summer, *Williams v. California*, has placed some of the state's questions about funding adequacy and governance into the courtroom. Meanwhile, state leaders have set in motion a process, recommended in the proposed California Master Plan for Education, that could ultimately result in a new school finance system. They created the California Quality Education Commission, which will begin meeting in July 2003. The commission's task is to create a quality education model using an "adequacy" approach that will enable policymakers to establish a reasonable cost for operating schools capable of helping students meet state standards.

With these issues on the wider policy horizon and continuing financial pressure at the local level, school finance seems likely to receive substantive attention in California in the years ahead. 



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