



# School Finance 2009–10

## Budget Cataclysm and its Aftermath

### HIGHLIGHTS

- California has struggled with creating sound state budgets since the early 2000s, so the national economic downturn hit the state particularly hard..... 2
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In fall 2008, the nation faced a historic economic crisis. Since then, the public school system in California has been coping with the aftermath.

Through July 2009, school agencies were trying to manage their finances, balance their budgets, and do the best for their students without any certainty about the amount of funding they would have and little clarity about new regulations they needed to follow. In the months since the 2009–10 state budget was adopted, they have had to operate with less funding and dramatic changes in when they receive those funds.

The situation for California schools is likely the worst in a nation that has been rocked by financial distress. No state government in the country was as severely shaken as California. And because K–12 education represents the single largest state expenditure here, the financial fate of the public schools is inextricably tied to California’s state budget.

In addressing the crisis throughout 2009, state leaders repeatedly made changes to the K–12 portion of the budget. Those

changes included billions in funding cuts that left many school districts reeling as well as revisions in how funds are allocated that are still being sorted out. Adding to the complexity was an influx of one-time stimulus funding from the federal government. Although the federal funds were crucial to many districts’ fiscal solvency, they came with new reporting demands and pressures for reform.

Now that the dust has settled, the California school system—which arguably already had the worst adult-to-student ratios in the nation—faces a net funding cut that averages about \$470 per pupil. That is the equivalent of about \$11,750 in every classroom in the state. And more cuts seem inevitable. During 2009, state leaders used a wide variety of fiscal tactics to keep finances from completely falling apart, but the state’s situation remains tenuous as 2010 begins.

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## IN THIS SECTION

- The state's budget troubles developed before the current recession
- State revenues have dropped sharply and may take years to recover
- The development of the 2008–09 and 2009–10 budgets did not follow the customary timeline or process because of huge deficits

## California has struggled with creating sound state budgets

California's state treasury outperforms its economy in good times and underperforms it in bad times. Thus, the Golden State's economic boom of the late 1990s left state coffers bulging at the seams. In response, policymakers increased spending and cut taxes, creating budgets that were not sustainable in the long run. Those temporary solutions left the state poorly prepared to deal with the current economic crisis, in part because state revenues have suffered even more than the economy as a whole. The huge drop-off in revenues prompted policymakers to take an unconventional approach to budget-making in 2008–09 and 2009–10.

### *The state's budget troubles developed before the current recession*

For several years, there has been a mismatch between how much money the state government takes in from ongoing sources and how much it spends. In the late 1990s and very early 2000s, state revenues increased dramatically as stock prices shot up and many Californians paid taxes on large capital gains. State policymakers increased spending and cut taxes. However, when the dot-com bubble burst and revenues declined substantially soon thereafter, policymakers did not aggressively match revenues and expenditures. Elected officials gradually reversed some of the spending increases, but they did little to restore the taxes they had cut. Spending requirements put in place by voters and the courts, as well as actions by progressives in the Legislature, minimized expenditure cuts. Meanwhile, opponents of tax increases largely held their line. Partisans compromised on temporary budget solutions. They used borrowing and funding delays under the assumption that revenues would eventually rise through economic growth and thus come into alignment with expenditures.

In late 2004, the California economy showed signs that such hopes might be realized. The strong real estate market and events such as Google's initial public offering led policymakers to believe that the temporary fixes they had been using might see the state through to rosier times. In 2006–07, revenues were strong, and it looked like the

state's budget might gradually right itself. However, after that year, revenue streams did not maintain their growth, and policymakers reverted to the use of Band-Aids to cover budget weaknesses—for example, borrowing from private investors, temporarily accelerating tax collections, delaying expenditures, and moving monies from special funds to plug holes in the General Fund. Thus, the state entered the current recession with an unsound budget and a structural imbalance between income and expenditures.

### *State revenues have dropped sharply and may take years to recover*

The national economic downturn hit California particularly hard. For example, California's unemployment rate in May 2009 was two percentage points higher than the national rate. With incomes, sales, and capital gains falling, Californians' contributions to state coffers have fallen precipitously, creating a 14% decrease in the state's General Fund between 2007–08 and 2009–10.

The General Fund typically provides more than half of the funding that local education agencies (school districts, county offices of education, and direct-funded charter schools) use to pay their expenses. This includes everything from teacher pay and benefits to books and the electricity bill. When the General Fund suffers, schools suffer.

The second largest source of K–12 education funding—local property tax revenue, which provides about one-fifth of school

agencies' total revenues—is also down, though to a lesser extent. Property values statewide declined only in the past year, and in the aggregate they still exceed their 2007–08 level. The total assessed value of California properties increased from \$4.35 trillion in 2007–08 to \$4.56 trillion in 2008–09, but then decreased to \$4.45 trillion in 2009–10. This was the first statewide decline in assessed value since the Board of Equalization began keeping records in 1933. However, schools are generally protected from a decline in property tax revenues by Proposition 98, which effectively requires the General Fund to backfill any decrease. This, of course, adds to the already large strain on the General Fund. (Regional variation in changes in property values and the differential impact on some districts is discussed in the box on page 3.)

The state's 2009–10 budget plan, adopted in July 2009, assumed a 3% drop in property tax revenues. Policymakers addressed the projected decrease by requiring local redevelopment agencies (RDAs), which work to improve blighted areas (loosely defined), to provide \$850 million in property tax revenues to school districts. The RDAs are challenging this funding shift in court. A successful challenge would put even more pressure on the state's General Fund.

State and local revenues are not expected to bounce back any time soon because of continued weakness in California's economy. UCLA Business School's Anderson Forecast finds some indications that the state's

## Recent changes in property values have varied throughout California: Some basic aid districts will be negatively affected

Board of Equalization data show a statewide decline in assessed property values between 2008–09 and 2009–10. However, the change in assessed values varied significantly throughout the state. For example:

- San Francisco County registered the largest growth at 7.1%.
- Merced County experienced the greatest decline at 13.4%.
- The 15 counties along California's coast, which account for 60% of total assessed valuation, fell on average 0.6%.
- Assessed values in the 43 inland counties fell 4.8%. The decline was especially dramatic in the Central Valley.

Although the General Fund will compensate most districts for any declines in local property taxes, a small number of local school agencies will not receive that backfill. Most districts get their revenue limit (general purpose) funding first from local property taxes, with state General Fund monies filling in the remainder. However, 112 “basic aid” districts—which are generally in affluent areas or have uncommonly high tax revenues from mining or forestry—get their revenue limit funding solely from local taxes. Of those 112, about 40 have recently become basic aid districts because their revenue limits fell faster than their property taxes. All basic aid districts that have had decreases in property tax revenues will feel a direct and uncompensated impact from a decline in those revenues.

economy is rebounding, but projects that the effects of the recession will be felt for some time. According to its September 2009 quarterly report, high unemployment will linger as consumers and businesses gradually recover and financial institutions maintain relatively tight lending practices. California's growth will also be dampened by national economic factors, such as the large federal budget deficit. Taken together, these factors make it likely that state leaders will continue to struggle for years to put together sustainable budgets.

### *The development of the 2008–09 and 2009–10 budgets did not follow the customary timeline or process because of huge deficits*

In theory, California lawmakers are expected to follow the budget-making approach outlined in the state constitution and state law, which require that:

- the governor submit a proposed budget to the Legislature by Jan. 10. The proposed budget must be balanced. The governor must also release a revised budget based

on updated estimates of revenues and expenditures in May.

- the Legislature pass a budget by June 15.
- the governor sign or veto the budget bill within 12 days of legislative action. The governor may also use the line-item veto to reduce or eliminate specific expenditures. Since March 2004, when Proposition 58 amended the state constitution, the signed budget must have balanced General Fund revenues and expenditures and must not use long-term borrowing to achieve the balance. However, short-term borrowing may be used to cover cash shortfalls, and borrowing among state funds is allowed.

Budget projections do not always prove to be accurate; but the differences are traditionally marginal, and policymakers generally try to compensate for the differences in the following year. Adjustments are more likely to be minor if projections are reasonably accurate and policymakers try to align ongoing expenditures with ongoing revenues. However, partly due to the use of temporary solutions during the past several

years and partly because of the unexpectedly large drop-off in revenues, the pattern was quite different in 2008–09 and 2009–10.

### *September 2008: The 2008–09 budget was finally signed*

In late September—13 weeks into the fiscal year—the 2008–09 budget was enacted, making it the latest in state history. From when it was enacted until late July 2009, rapid declines in revenues created a repeated need to revise the 2008–09 budget. The fall-off in revenues was so severe that it created cash flow problems, prompting the state controller to issue IOUs for some payments for a brief period. The multiple revisions and proposals created confusion and a cascade of bad news for local school agencies.

The original 2008–09 budget was based on May 2008 revenue assumptions, which turned out to be overly optimistic. This was becoming clear even as lawmakers approved the budget. Thus, they knew their protracted wrangling to put together two-thirds majorities in both legislative houses would not result in a sustainable spending plan.

### *November and December 2008: The governor called special legislative sessions to address the growing crisis*

Soon after Election Day in early November, the governor called a special legislative session to address deficits projected for both 2008–09 and 2009–10. The combined two-year shortfall was projected to be a stunning \$22.5 billion. Gov. Arnold Schwarzenegger proposed a package of solutions totaling \$24.9 billion, with more than half coming from tax increases. The special session officially ended on Nov. 30 with no action taken.

The next two-year legislative session began on Dec. 1, 2008, with about 20% of the legislators new to the Capitol. The governor called another special session to address the state's multiyear budget problem and stated that it had grown to perhaps \$28 billion. Thus, many new legislators were being asked to help forge a solution to a large and growing deficit on their first day on the job. For his part, Schwarzenegger continued to

promote many of the proposals he had offered in November.

The state's cash flow problems became a major issue at this time. Infrastructure projects around the state were halted as the Pooled Money Investment Board voted in mid-December to stop providing interim financing for bond-funded projects. And the possibility of stopping state payments in several categories and issuing IOUs began to loom large. Republican lawmakers, who comprised more than one-third of the Legislature, had made it clear that they would not support tax increases to help solve the problem, making the required two-thirds majority for tax increases unattainable.

However, on Dec. 18, a majority in the Legislature—all Democrats—voted for a package that had fewer spending reductions than the governor's proposal had contained and a complicated and questionable set of tax decreases and fee increases designed to raise revenues without needing a two-thirds approval. Had the governor signed the bill package, it would have faced legal challenge. But he announced he would veto it, saying it did not address the entire problem.

The next day, Schwarzenegger called for a third special session. And on Dec. 31, 2008, he released an outline of his 2009–10 budget proposal, well before the Jan. 10 constitutional deadline. The governor's proposal, reflecting worsening revenue estimates, contained \$41.7 billion in budget solutions for the two years.

#### February 2009: Policymakers enacted a two-year plan

After several weeks of intensive work, lawmakers enacted a package of bills that amended the 2008–09 budget and created a 2009–10 spending plan. Signed on Feb. 20, the 2009–10 budget was adopted five months before the constitutional deadline—a record.

The package provided about \$41.8 billion in solutions during the two years. The newly signed set of bills included:

- \$14.5 billion in spending cuts, more than half of which were to education.
- \$12.5 billion in temporary tax increases.

- \$8.5 billion in anticipated federal stimulus funds, most of which were going to backfill some of the education cuts.

- \$0.3 billion in borrowing.

- About \$6 billion anticipated from five ballot propositions to go before the voters in May.

(See pages 6–7 for more on the February budget package's effect on K–12 education funding.)

#### May 2009: The governor's May Revision reflected new problems

Throughout the spring, revenues continued to fall short of projections. In addition, polling data indicated that a majority of voters opposed the budget-related propositions. Schwarzenegger therefore offered two versions of a May Revision on May 14, days before the statewide election. The first version proposed about \$14.5 billion in solutions under the hopeful assumption that the propositions would succeed. The second, more austere version assumed the propositions would fail. Both contained billions in cuts to education. Five days later, the five propositions went down in defeat, and soon legislators began meeting to consider the governor's May proposals.

On May 29, the governor proposed an additional \$2.8 billion in budgetwide solutions, partly in response to estimates from the Legislative Analyst's Office (LAO) indicating that the revenue assumptions in his "May Revisions" had been overly optimistic. Combined with the second version of the May Revision, the governor's May 29 proposal called for about \$6 billion in education cuts during two years as compared with the spending level established in February.

The Legislature failed to pass necessary revisions to the budget by the required two-thirds majority in June, and the governor responded by calling a fourth special session on July 1. Asserting that the Legislature's inaction effectively cost the state several billion dollars, Schwarzenegger proposed another \$4.9 billion in solutions, which included suspending Proposition 98 to achieve \$3 billion in savings. (See an explanation of Proposition 98 on page 5.)

#### July 2009: Policymakers amended both the 2008–09 and 2009–10 budgets

After almost four weeks of negotiations, lawmakers enacted solutions totaling about \$24 billion during both years. These were in addition to the February actions totaling \$35.8 billion (\$41.8 billion less the \$6 billion in unrealized funds from the failed ballot propositions). With few good options, state leaders approved a mixture of "internal borrowing," other temporary solutions, such as borrowing from outside sources, deferrals, and tax receipt accelerations; and a large infusion of federal funding. The package also included some revenue increases, but the bulk of the solution came from spending reductions. Spending from the state's General Fund and special funds was down 15% compared with 2007–08. Although it included reductions to education, the package did not suspend Proposition 98. Specifically, the July package included:

- \$18 billion in spending reductions, about a third of which came from K–12 education.
- \$3.5 billion in one-time revenue increases and transfers to the General Fund.
- \$2.2 billion in borrowing.

The governor signed the bill package but used his line-item veto to cut spending by \$489 million. Attorneys for the Legislature stated that the governor could not, for technical reasons, use his veto on the items that he did, which were mostly health and human service programs. Senate Pro Tempore Darrell Steinberg and Assembly Speaker Karen Bass have joined a group of health care advocates suing to have the vetoes overturned. Parties in the case were waiting for oral arguments to be scheduled as this report was being prepared.

In sum, the February and July budget packages combined had \$60 billion in solutions—though some are temporary and/or vulnerable to being overturned by a judge. Cuts to K–12 education spending played a major role in policymakers' efforts to close the massive shortfall.

**Proposition 98 sets a minimum funding guarantee for education**

Proposition 98, passed by voters as an amendment to the California Constitution in 1988, is designed to guarantee a minimum level of funding for public schools and community colleges. The measure ensures that at least 40% of state General Fund revenues go to these educational agencies, and in the long run is meant to provide funding that keeps pace with growth in the K-12 student population and the personal income of Californians. It was revised in 1990 by Proposition 111.

Proposition 98 dollars consist of local property tax revenues and state funds raised primarily through income, sales, corporate, and capital gains taxes. (Local property taxes are collected locally, but the state determines their distribution among local governments.)

Proposition 98 dollars normally represent a little less than three-quarters of the funds that K-12 schools receive. However, Proposition 98 funds amounted to only 63% in 2008-09 and just 67% in 2009-10. Federal stimulus dollars are backfilling a little less than half of the decrease in Proposition 98 dollars. (Figure 2 on page 8 provides details on all sources of funding for K-12 schools.)

The minimum spending level under Proposition 98 is determined by one of three “tests” or formulas, which are described in detail in the table below. Several factors influence which test is used to set the minimum guarantee, but the most important are the annual changes in statewide K-12 student attendance, per capita personal income, and per capita General Fund revenues. For 2008-09, Test 3 was in effect. Although 2009-10 is about halfway over, it is not yet clear which test will ultimately determine the minimum guarantee this year due to the unpredictability of state revenues.

The maintenance factor (see description below) may change along with any revisions to the Proposition 98 minimum guarantee, but policymakers placed into law an \$11.2 billion maintenance factor as of 2008-09. The 2009-10 budget pays off \$1.1 billion of that obligation, so the state must eventually add about \$10.1 billion to ongoing Proposition 98 expenditures as the economy permits. The exact amount of the maintenance factor will be adjusted over time for inflation and changes in student attendance.

**Understanding the Three Tests\* of Proposition 98**

<p><b>TEST 1</b>  <b>Percentage of General Fund Revenues</b>                      Times used: 1</p>	<p><b>Requirement:</b></p> <p>K-14 education must receive a minimum percentage of General Fund revenues, currently about 40%.</p>
	<p><b>When is it Operative?</b></p> <p>When it would provide more money than Test 2 or 3. It has been used only once, in 1988-89.</p>
<p><b>TEST 2</b>  <b>Adjustment Based on Statewide Personal Income</b>                      Times used: 12</p>	<p><b>Requirement:</b></p> <p>K-14 education must receive at least the same amount of state aid and local property tax dollars as received the prior year, adjusted for changes in enrollment growth and per capita personal income.</p>
	<p><b>When is it Operative?</b></p> <p>Generally, when General Fund revenues experience normal or strong growth over the prior year. (Specifically, it is used when the percentage growth in state per capita personal income is less than or equal to the percentage growth in per capita General Fund revenues plus 0.5%.)</p>
<p><b>TEST 3</b>  <b>Adjustment Based on Available Revenues</b>                      Times used: 7, including in 2008-09</p>	<p><b>Requirement:</b></p> <p>K-14 education must receive at least the same amount of state aid and local property tax dollars as received in the prior year, adjusted for changes in enrollment and per capita General Fund revenues, plus 0.5% of the prior year Proposition 98 spending amount.</p>
	<p><b>When is it Operative?</b></p> <p>Generally, when General Fund revenues fall or grow slowly during the prior year. The intent is to allow, but not require, education funding to be responsive to the state’s slowing revenues. (Specifically, it is used when the percentage growth in statewide per capita personal income is greater than the percentage growth in per capita General Fund revenues plus 0.5%.)</p>
<p><b>SUSPENSION</b>                      Times used: 1</p>	<p>Proposition 98 can be suspended for a year with a two-thirds vote of the Legislature and concurrence of the governor. If suspended, policymakers have great discretion as to the level of funding they provide.</p>
<p><b>MAINTENANCE FACTOR</b></p>	<p>If Test 3 is used, or if Proposition 98 is suspended, the amount saved (the difference between what Test 2 would have provided and what was provided) must be restored over time to the minimum guarantee level, beginning in the next year in which the percentage growth in per capita General Fund revenues exceeds the percentage growth in per capita personal income. Specifically, the minimum amount that must be restored in a given year is one-half of the difference between those two percentages times the current-year level of General Fund revenues.</p>
<p><b>SETTLE UP</b></p>	<p>When state leaders craft a budget for the upcoming fiscal year, they must estimate what the minimum Proposition 98 spending level will be before the fiscal year starts. If, during the course of the fiscal year, the estimate turns out to be too low, the state must later make up the shortfall. The amount of the shortfall is often referred to as the “settle up” amount.</p>

\* The applicable test for 2009-10 will not be officially determined until later in the fiscal year.

## IN THIS SECTION

- Proposition 98 funding does not encompass all K–12 education funding, especially in 2008–09 and 2009–10
- The K–12 education budgets from February and July contained large cuts and complex budget maneuvers
- The state has cut categorical funding but has made it more flexible

## K–12 spending cuts have been a major part of the budget solutions

With policymakers choosing to make major cuts to help solve the deficits, and K–12 schools representing the state’s single largest expenditure, lawmakers reduced education spending as part of the overall budget solution. They cut ongoing Proposition 98 funding down to the minimum guarantee for 2008–09 and 2009–10. However, they also found ways to keep one-time monies in excess of that amount flowing to schools to cushion the blow in the first year. Substantial one-time federal stimulus funding temporarily offset some of the drop in state funding. However, California’s local school leaders still must contend with significant decreases in general purpose and earmarked funds, albeit with some increased flexibility. For the long term, state leaders have recorded in law an obligation to restore \$11.2 billion for K–12 schools and community colleges.

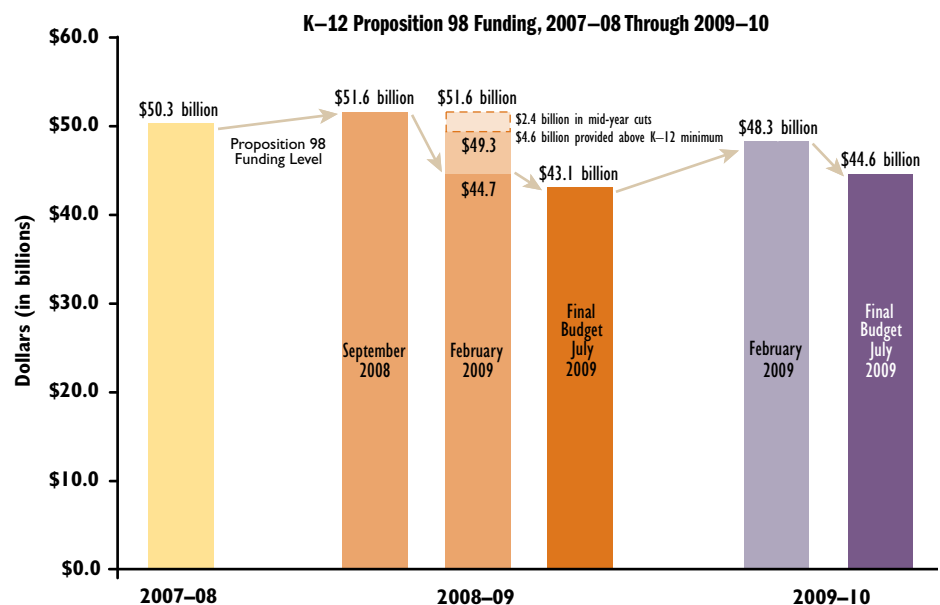
*The Proposition 98 spending requirement has dropped sharply, and policymakers have stuck to the minimum*

The California Constitution governs the minimum annual funding for local K–12 education agencies and community college districts. The constitution’s education funding provisions were established primarily by Proposition 98 in 1988 and modified slightly by Proposition 111 in 1990.

The “Proposition 98 guarantee,” as the minimum is often called, is generally set at the amount provided in the previous year and adjusted for changes in K–12 attendance and the personal income of Californians.

However, the Proposition 111 amendment states that if General Fund revenues lag, Proposition 98 grows at the same pace as the General Fund. In addition, the amendment allows for temporary “fair share” reductions in particularly difficult economic times. And although Proposition 98 calls for a minimum guarantee, state policymakers often view this amount as a ceiling—the most they can spend on education—in part because they must allocate limited funds among several public services. In addition, any increase provided to education in a given year becomes

figure 1 | Education funding has fluctuated by billions within and between recent fiscal years



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

In the context of an extraordinary fiscal situation, state lawmakers first adopted the Proposition 98 funding level for 2008–09 in September 2008 and then revised it twice—in February and July 2009. Similarly, they first set the Proposition 98 level for 2009–10 in February 2009 and then adjusted it the following July. More adjustments for 2009–10 are possible.

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

EDSOURCE 1/10

part of the baseline for calculating the minimum guarantee in the next year—so education funding decisions have long-term implications.

Policymakers adjusted K–12 funding for 2008–09 three times

Projections of state revenues and the Proposition 98 guarantee fell throughout 2008–09.

As a result, policymakers looked to Proposition 98 spending as a place to cut. Doing so allowed the state to realize savings in the current year, and more importantly, to minimize spending obligations going forward. As they did this, officials tried to bring Proposition 98 spending to a minimum in accounting terms without cutting too much from the actual amount of funding that districts received. On the other hand, to satisfy Proposition 98 requirements, policymakers also delayed the release of some funds, which disrupted local agencies' cash flow and ability to plan.

As Figure 1 shows, in 2007–08, the K–12 portion of Proposition 98 spending was \$50.3 billion. The initial 2008–09 budget increased that figure. Observers who viewed that as unrealistic were proven right, and five months later, K–12 Proposition 98 spending was reduced to \$44.7 billion. As described earlier, even that level was unsustainable and further reductions were made in July 2009, bringing the amount to \$43.1 billion. So in the end, K–12 Proposition 98 spending took a one-year cut of \$7.2 billion (\$50.3 billion – \$43.1 billion = \$7.2 billion) from 2007–08 to 2008–09. However, the reduction in Proposition 98 funding in 2008–09 was larger than the actual funding cuts for school agencies. How this was accomplished is described on page 10.

#### The 2009–10 Proposition 98 level for K–12 education fell between February and July 2009

For 2009–10, the K–12 Proposition 98 funding level changed between the original February budget and the July revision. In February, the figure was estimated to rise to \$48.3 billion. However, between February and July, state revenues continued to fall, which lowered the Proposition 98 minimum guarantee. Accordingly, the July budget provides about \$44.6 billion in K–12 Proposition 98 spending for 2009–10. (See Figure 1.)

#### Policymakers set a large Proposition 98 “maintenance factor” in statute

As stated earlier, when state General Fund revenues lag, the Proposition 98 minimum guarantee is based on changes in the state's General Fund rather than personal income. When that happens—or when policymakers

suspend Proposition 98—the state keeps track of how much would have been spent if state revenues had grown normally. The difference between the actual spending level and what would have been spent under normal growth is called the maintenance factor. When economic conditions allow, the state must begin to build the amount of the maintenance factor back into the ongoing Proposition 98 guarantee. (See page 5.)

During the past several years, state budgets have created a maintenance factor that has grown to a huge sum. The \$1.4 billion maintenance factor that had accumulated by the end of 2007–08 became \$11.2 billion by the end of 2008–09. After a complex controversy about maintenance factor obligations in spring 2009, policymakers set that \$11.2 billion figure in statute so that there would be no doubt about the amount. The Proposition 98 funding level for 2009–10 includes a \$1.1 billion maintenance factor payment, leaving another \$10.1 billion that must be restored.

#### Proposition 98 funding does not encompass all K–12 education funding, especially in 2008–09 and 2009–10

Although the Proposition 98 spending level is a very important indicator of the funds available to K–12 schools and community colleges, it does not tell the whole story. In a typical year, the K–12 portion of Proposition 98 spending accounts for about three-quarters of the total revenues for schools and some related programs, such as adult education and child care. Within that, the state General Fund portion makes up about 55% and local property taxes comprise about 20%. In addition, federal funds make up about 10% of total K–12 revenues, and about 7% comes from local miscellaneous sources, such as private donations, parcel tax revenues, and interest income. Beyond those sources, the lottery provides slightly more than 1%.

In addition, the state counts non-Proposition 98 state and local funds as part of total education funding, and these sources represent nearly 10% of the total. The local portion is mostly debt service, and the state portion includes spending on the California Department of Education, the Commission

on Teacher Credentialing, the California State Library, school facilities bond repayments, state special schools, and contributions to the State Teachers Retirement System.

However, 2008–09 and 2009–10 have not been typical years. Although local property taxes have remained relatively stable, the state portion of Proposition 98 funding is down significantly, and federal funding has substantially risen in percentage and amount.

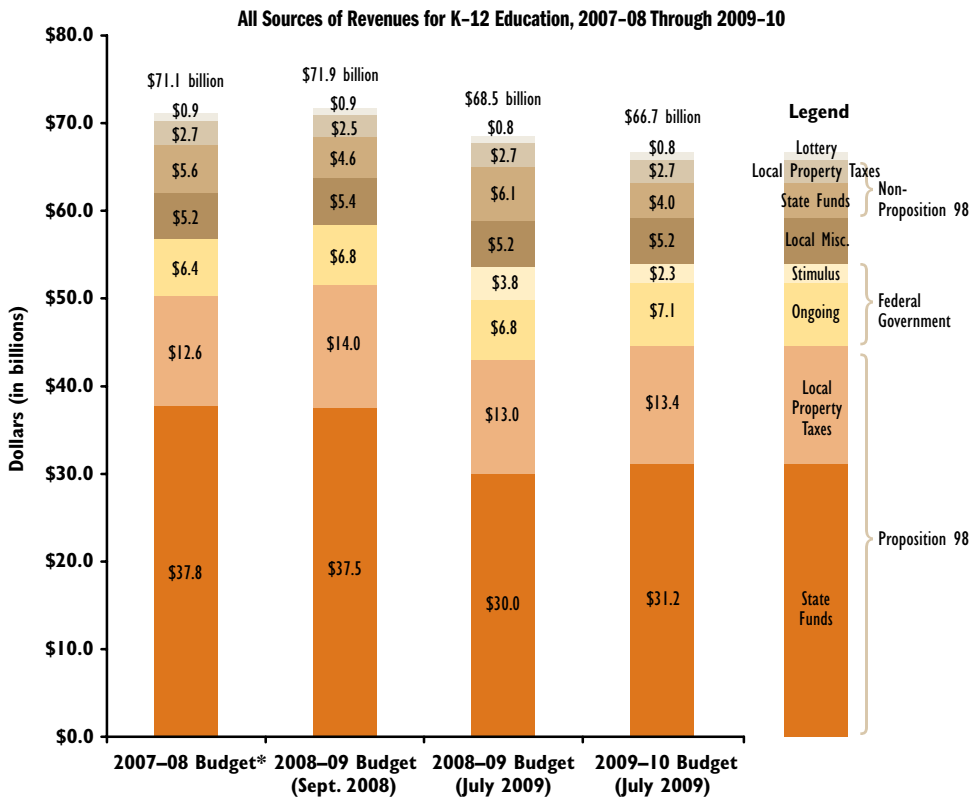
#### Federal funding has increased greatly, but much of the funding is temporary

In recent years, California has received about \$7 billion annually from the federal government. All of these funds are earmarked for specific purposes, the largest of which are compensatory education programs for disadvantaged students (Title I), child nutrition, and Special Education for those with disabilities.

In addition, the federal stimulus package enacted in February 2009 is providing one-time funding totaling about \$3.8 billion in 2008–09 and \$2.3 billion in 2009–10. Of that funding, about \$1.1 billion is an add-on to existing federal Title I allocations and \$1.2 billion is a supplement to federal Special Education funding. Most of the remaining funds are discretionary for school agencies. However, substantial reporting requirements are attached to those funds (see details on page 18). In addition to granting more than \$6 billion for K–12 school operations, the stimulus package is making nearly \$3 billion available to California's school agencies to borrow, interest-free, for facilities renovation and construction. Further, the federal stimulus is offering substantial funding for programs for infants and preschool-age children.

As described earlier and displayed in Figure 1, Proposition 98 funding decreased \$7.2 billion from 2007–08 to the final 2008–09 budget and fell another \$5.7 billion in the 2009–10 budget—a total of \$12.9 billion during two years. Considering that the federal stimulus package is providing about \$6.1 billion during the same time period, it can be seen as backfilling a little less than half of the decrease in Proposition 98 funding.

figure 2 | Revenues for schools have decreased by more than \$4 billion since 2007–08



The net decrease in Proposition 98 funding between 2007–08 and 2009–10 was \$5.7 billion, while the net increase in federal funds was almost \$3 billion. On balance, K–12 education saw a cut in funding from these combined sources of about \$470 per pupil (based on estimated average daily attendance or ADA for 2009–10).

\* These numbers reflect the updated estimates for 2007–08 rather than the 2007–08 budget as passed in August 2007. Major funding changes included the following: State Proposition 98 funds increased about \$0.55 billion, local Proposition 98 property taxes decreased about \$1 billion, local miscellaneous revenues increased about \$0.9 billion, state non-Proposition 98 funds increased about \$1.3 billion, and local non-Proposition 98 property taxes increased about \$0.7 billion.

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

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

DATA: CALIFORNIA DEPARTMENT OF EDUCATION (CDE), CALIFORNIA DEPARTMENT OF FINANCE (DOF), LEGISLATIVE ANALYST'S OFFICE (LAO) | EdSource 1/10

**Local miscellaneous funding has grown somewhat, while the lottery's contribution, already small, has been shrinking**

Local miscellaneous funding has also grown since 2006–07, both in amount and as a percentage of the total. These funds are largely from community and foundation contributions, interest income, lease income, and parcel taxes.

Because the state lottery has taken in less revenue in recent years, it is providing less money to California's schools. In 2005–06, the lottery contributed \$1.04 billion. The following year, the figure shrank to \$979 million,

and in 2007–08, the lottery contributed \$859 million to California's K–12 schools. In 2008–09, the figure was \$818 million, and policymakers assumed that this year's amount would be about the same.

Most lottery revenues are discretionary for school agencies, but Proposition 20, passed by California voters in March 2000, states that if education's share of the lottery revenue in a given year is higher than the amount provided in 1998–99, half of the overage must be used for instructional materials. The discretionary portion for 2008–09 was \$727 million, and the Proposition 20 portion was \$91 million.

**The K–12 education budgets from February and July contained large cuts and complex budget maneuvers**

Just as the overall budget relies on a combination of real cuts and temporary solutions to bring spending in line with revenues, so does the K–12 portion of the budget. The February and July packages contained significant reductions to both revenue limit (general purpose) and categorical funding, with one-time federal stimulus monies partially back-filling those cuts. They also contained large deferrals (funding delays) both within and between fiscal years. In addition, policymakers shifted public transportation monies to maintain education spending in some areas and provided flexibility related to some revenue sources. About one-third of the state funds previously dedicated to specific purposes are now flexible, so local administrators can use them where they believe they are most needed.

Of the two legislative packages, the February actions contained the more substantive budgetary and policy changes. The July actions tended to refine and reinforce actions taken in February. Thus, the discussion below describes the two packages together and is organized more thematically than chronologically.

**The state has cut revenue limit funding substantially**

Although all of California's local school agencies are facing substantial revenue reductions, the amounts are not equal. For many districts throughout the state, income is being lost due to both the cuts and falling enrollments. In normal years, school districts count on the cost-of-living adjustment (COLA) on their general purpose (revenue limit) funding to defray cost increases. The funding they receive is based on a per-pupil amount, which is multiplied by the number of students they serve. Having fewer students means less money, and districts vary in the extent to which their student population is growing or—more typically—shrinking.

**No COLA was provided**

When the state's General Fund is reasonably healthy, policymakers follow the law that



requires a COLA to revenue limits and most categorical funds. The size of the adjustment is dictated by the Implicit Price Deflator for State and Local Government Purchases of Goods and Services. Although that index called for a 5.66% COLA in 2008–09, policymakers provided only 0.68% in the September 2008 budget and decided in February not to provide any COLA for the year.

For 2009–10, the Implicit Price Deflator indicated that a 4.25% COLA was appropriate. However, policymakers again provided no COLA, saving the state about \$1.6 billion.

### Additional reductions were made

Beyond eliminating the statutory COLA, the state actually reduced revenue limit funding. In February 2009, policymakers cut \$944 million from the 2008–09 revenue limit funding they had promised in September. The elimination of the COLA, plus the actual reduction, amounted to a 7.8% reduction for 2008–09.

In July 2009, the state cut ongoing revenue limit funding for 2009–10 as well—by \$2.3 billion. In addition, they made a one-time revenue limit cut of \$1.6 billion through a complicated accounting maneuver.

### An additional 2008–09 revenue limit cut was made after the fiscal year had ended

Because Sacramento policymakers did not enact a budget package before the end of 2008–09, they allowed appropriations to remain \$1.6 billion above the minimum Proposition 98 guarantee that year. In 2009–10, they retroactively cut that \$1.6 billion by capturing 2008–09 categorical funding that had not yet been allocated. They then used 2009–10 revenue limit funds to backfill \$1.5 billion of the categorical funding needed for ongoing programs. (The total allocated to categorical funds was slightly less than \$1.6 billion because the High Priority Schools Grant program was discontinued.) They executed these maneuvers to keep the 2008–09 Proposition 98 funding technically at the minimum requirement to reduce future funding obligations.

The state's education community may be disheartened by the precedent that this

## A complex plan to fund a school intervention program will reduce revenue limit funding statewide

The Quality Investment Education Act (QEIA) program is the result of a 2006 legal settlement involving Proposition 98 funding for 2004–05 and 2005–06. The settlement originally called for payment of about \$2.7 billion over seven years to selected schools. Those payments go on outside of current Proposition 98 obligations.

In November 2009, legislators passed a complex QEIA funding plan for this fiscal year. The state will fund the program from two sources. The first source is \$355 million in Proposition 98 funding that was freed up thanks to federal stimulus funds. The second source is \$20 million from the Proposition 98 Reversion Account, which is a collection of unspent Proposition 98 monies from previous years.

Because the \$355 million utilized as the first source would have been allocated to all districts, there is now a shortfall in districts' anticipated funding of about \$59 per pupil. However, the plan also directs the superintendent of public instruction to allocate up to \$165 million in federal Title I funding, if available, to first replace the Reversion Account funding and then offset part of the Proposition 98 funding. If that Title I funding use is allowed, those monies may reduce the shortfall of anticipated funding to as low as \$32 per pupil.

maneuver set. It was done during a fiscal crisis, but there is no guarantee that policymakers will not use the maneuver again. Such changes in current year revenues can wreak havoc on school districts, which have few options for cutting costs after a school year begins. Further, a complex plan to fund the Quality Education Investment Act program will lead to another revenue limit funding reduction statewide. (See the box above.)

### Leaders in Sacramento have deferred some education funding to address the state's cash flow problems

The timing for when the state receives revenues and when it makes expenditures do not always align. That can cause cash flow problems. One of the ways California has dealt with these problems is to change the timing of some of its spending on schools. When the state pushes back the date of an expenditure, it is called a deferral. Such deferrals—whether within a fiscal year or across fiscal years—can help the state's cash flow but disrupt the timing of local education agencies' revenues. As a result, districts have to adjust—sometimes by borrowing funds that must be repaid with interest.

When the state defers a payment from one fiscal year to another, it generally

continues to do so in subsequent years as well. But the interval between payments changes only in the first instance, so the state realizes a savings from only the first deferral. To reverse a deferral that has been made across fiscal years, the state must provide double funding in a single fiscal year. Because the state's fiscal situation will probably not allow for such double funding any time soon, deferrals are likely to remain in place for some time to come.

One large ongoing deferral began in the summer of 2003. The state delayed about \$1.1 billion in school district apportionment funding—which is primarily revenue limit funding—from June to July. Policymakers have maintained that deferral and recently expanded it to about \$1.4 billion per year.

Other deferrals have been made since then, including some very large ones in February and July 2009. Combined, the two budget packages made additional ongoing deferrals totaling \$3.7 billion in apportionments and \$570 million in funding for K–3 Class Size Reduction. As Figure 3 on page 10 shows, the state also delayed other payments totaling \$3.5 billion.

Along with deferring some specific payments to K–12 education, the state also

revised the principal apportionment schedule. The largest difference between the old and new schedules occurs in July through September. Whereas the old schedule paid 6% in July, 12% in August, and 8% in September, the new schedule pays 5% in July, 5% in August, and 9% in September—hence its “5-5-9” nickname. So whereas schools used to get 26% of their funds around the start of the school year, they now get 19%, with almost half of that in September.

These changes in when districts receive revenues will have varying effects throughout the state. Some districts may need to borrow funds from external sources. The latter action requires a certain amount of lead time, however. A district that is not monitoring cash flow and making arrangements to compensate for anticipated shortages may have great difficulty paying its bills in some months.

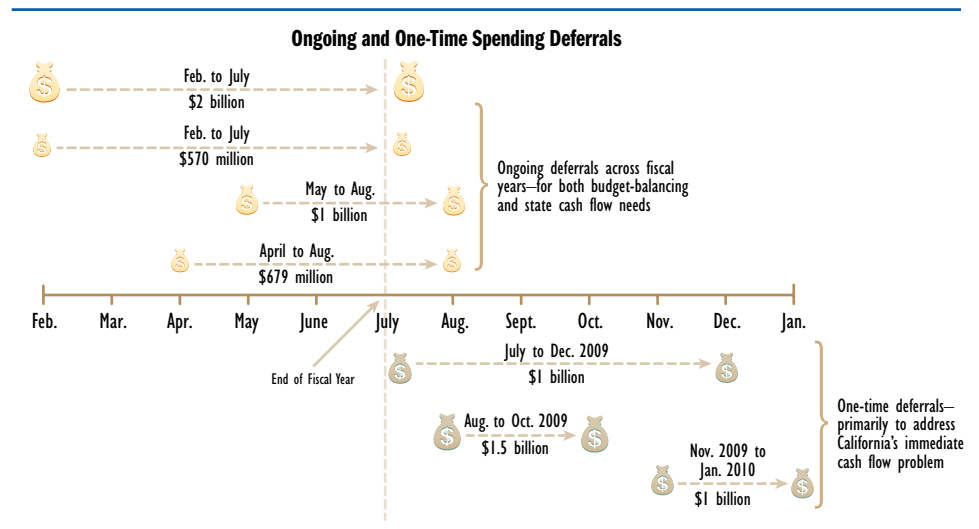
#### The state used various accounting maneuvers to maintain the flow of funding to schools

In February, the state reduced 2008–09 Proposition 98 spending on Home-to-School Transportation but kept local school agencies whole by substituting an equal amount—\$619 million—from the Public Transportation Account and Mass Transportation Fund to continue paying the cost of the program. Although the education community could be glad that the program did not lose money, a perhaps more serious issue arose from the state’s lowering of Proposition 98 funding.

In July, the state went back to using Proposition 98 dollars to pay for the program in 2009–10. However, the program is receiving 20% less funding.

Another accounting maneuver allowed the state to settle an old debt with schools and provide more funding than was required in 2008–09. By February 2009, the 2008–09 Proposition 98 funding obligation for K–12 education had fallen about \$7 billion below what the state had planned to provide to schools. State leaders cut \$2.4 billion from education and found ways to provide the remaining \$4.6 billion to schools without counting it as part of the ongoing Proposition 98 guarantee. One way was to designate part of the remainder as the repayment of an old debt. The state learned after 2003–04 that it had

**figure 3** Spending deferrals made in the February and July 2009 budgets are delaying districts’ receipt of \$7.8 billion in state funds



DATA: FISCAL CRISIS AND MANAGEMENT ASSISTANCE TEAM (FCMAT)

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provided schools with a total of \$1.1 billion less than what had been required for that year and the previous year. California policymakers had planned to reimburse districts for meeting state mandates. Instead, the state used the \$1.1 billion to help pay for 2008–09 revenue limit funding.

#### The state has cut categorical program funding but made it more flexible

The various categorical programs in California’s complex school funding system have long had both passionate defenders and detractors. Districts and schools qualify for categorical funding based on student and school characteristics, the programs they run, and compliance with spending requirements. During the past two decades, the number of programs has generally grown, though some efforts toward simplification have been made. For example, in 2004, lawmakers passed a bill consolidating about two dozen categorical programs into six block grants.

In February 2009, lawmakers granted districts flexibility in how LEAs spend funds from about 40 programs, now referred to as Tier 3 programs. The state provided this flexibility for a five-year period, from 2008–09 through 2012–13. The funds are discretionary for now; but before a district diverts a program’s money from its original purpose, it must first discuss such a shift in a public

meeting and take public comments. One of the stated purposes of granting flexibility was to help districts deal with budget cuts—including to the programs themselves, which were reduced by nearly 20% from their original 2008–09 levels (15.4% in 2008–09 and an additional 4.5% in 2009–10). Policymakers granted additional categorical flexibility by allowing school agencies to redirect ending fund balances from about 50 programs to any educational purpose. (See page 14.)

Districts will generally receive the flexible funding in the same statewide proportion as they received monies for the programs in 2008–09. For example, if a district received 2% of the statewide total for the 40 programs in 2008–09, it will continue to receive 2% of the statewide total (which will have been reduced by nearly 20% in 2009–10). For a few programs, funding will be based on 2007–08 allocations.

Newly flexible programs represent about three-fifths of the total number of programs but about one-third of total categorical funding—\$4.5 billion of \$14.2 billion in 2009–10.

Figure 4 lists the newly flexible programs, grouped by their broadly defined original purposes. Their funding level in 2007–08—before policymakers made them flexible and cut them by nearly 20% in 2009–10—is shown to indicate their relative importance in statewide education funding.

figure 4 | Newly Flexible State Categorical Programs

This table compares 2007-08 funding amounts and totals with those for the same programs in 2009-10. (The 2007-08 fiscal year is the most recent with stable funding amounts.) All the programs in this table are flexible through 2012-13, and all were cut nearly 20% from their 2008-09 funding amounts.

(All dollar figures are rounded to the nearest million.)	2007-08	2009-10
<b>Total of Programs and Block Grants Previously Targeted for Specific Types of Instructional Services or Student Supports</b>	<b>\$2,149<sup>1</sup></b>	<b>\$1,705<sup>1</sup></b>
Library Improvement Block Grant (includes library materials and school improvement programs)	\$465	Individual program allocations are not listed because funds are flexible.
Summer School/Remedial Supplemental Instruction	421	
Instructional Materials	420	
High School Counseling (7th-12th grade)	209	
Arts and Music Block Grant	110	
Class Size Reduction (9th grade)	107	
School Safety Block Grant (School Safety and Violence Prevention, Grades 8-12)	101	
Pupil Retention Block Grant (includes supplemental instruction, 10th grade counseling, dropout prevention programs, etc.)	97	
California High School Exit Exam (CAHSEE) Intensive Instruction and Services	73	
Gifted and Talented Education (GATE)	56	
Physical Education Teacher Incentive Grants	42	
School Safety Consolidated Competitive Grant (Violence Prevention)	18	
Education Technology	18	
Specialized Secondary Programs	6	
<b>Total of Funds Previously Targeted for Programs Outside Regular K-12 Education</b>	<b>\$1,289</b>	
Adult Education	\$754	
Regional Occupational Centers and Programs (ROCPs)	486	
Community-Based English Tutoring (CBET)	50	
<b>Total of Funds Previously Targeted for Long-Standing Program with Existing Flexibility</b>	<b>\$1,076</b>	<b>\$855</b>
Targeted Instructional Improvement Block Grant		
<b>Total of Programs and Block Grants Previously Targeted for Professional Development or Educator Support Activities</b>	<b>\$555</b>	<b>\$421</b>
Professional Development Block Grant	\$275	
Teacher Credentialing Block Grant (includes regional infrastructure amount and Beginning Teacher Support and Assessment)	129	
Professional Development for Math and Reading	57	
Standards for Preparation and Licensing of Teachers (Alternative Certification Program and California School Paraprofessional Teacher Training Program)	40	
Instructional Support (includes Bilingual Teacher Training Assistance Program, Teacher Peer Review Program, and Reader Services for Blind Teachers)	33	
Certificated Staff Mentoring Program	12	
National Board for Professional Teaching Standards Certification Incentive Program	6	
Principal/Administrator Training Program and Chief Business Officer Training	5	
<b>Total of Funding Previously Targeted for Noneducational Services</b>	<b>\$172</b>	<b>\$258</b>
Deferred Maintenance	\$162 <sup>2</sup>	
County Office of Education <i>Williams</i> Lawsuit Settlement Audits	10	
<b>Total of Funding Previously Targeted for Charter Schools</b>	<b>\$151</b>	<b>\$136</b>
Charter School Categorical Block Grant		
<b>Total of Programs Previously Targeted for Supporting Instruction for K-12 Subgroups</b>	<b>\$115</b>	<b>\$92</b>
CalSAFE (California School Age Families Education) Program	\$58	
Community Day Schools	52	
American Indian Education Centers <sup>3</sup>	5	
<b>Total of All Programs in this Table</b>	<b>\$5,508</b>	<b>\$4,526</b>

Notes: This list does not include the handful of programs funded at less than \$1 million. The sum of funding for programs within each category may not equal the category total due to rounding. The same is true for the grand total. This list also does not include the High Priority Schools Grant Program, which was funded at \$47 million in 2007-08 and which ended in 2008-09. The \$47 million figure includes \$6 million in funds for corrective action, but it does not include a total of \$102 million reappropriated from the Budget Acts of 2005 and 2006.

1. These totals include three programs less than \$5 million that are not listed: Oral Health Assessments, Advanced Placement Exam Fee Waiver Program, and International Baccalaureate Diploma Program.

2. This amount does not include \$115.5 million from the Proposition 98 Reversion Account.

3. This money is not distributed to local education agencies but is listed as subject to categorical flexibility. This budget item does not include Proposition 98 money.

The numbers alone do not completely convey the changes, however. Some programs that were designated as flexible do not fit the model very well. For example, the Association of California School Administrators describes Adult Education and Regional Occupational Centers and Programs as less categorical programs than revenue-generating programs, even though they are not legally required.

They derive their funding in a manner similar to the way school districts do. And while the funding for the Teacher Credentialing Block Grant—which includes the Beginning Teacher Support and Assessment (BTSA) program—has been made flexible, the requirement for a teacher with a preliminary multiple- or single-subject credential to complete a BTSA-style induction program remains.

In contrast, policymakers did not officially place K–3 Class Size Reduction (CSR) among the flexible Tier 3 programs, but they did substantially loosen its restrictions. Penalties for exceeding the 20-to-1 student-teacher ratio have been relaxed, allowing districts with class sizes larger than 25 to receive 70% of the funding they would have received with class sizes of 20. For districts that

**figure 5 | Nonflexible State Categorical Programs**

This table compares 2007–08 funding amounts and totals with those for the same programs in 2009–10. (The 2007–08 fiscal year is the most recent with stable funding amounts.) All the programs in this table retain program requirements. Some, but not all, experienced cuts of nearly 20% from their original 2008–09 funding amounts.

<b>(All dollar figures are rounded to the nearest million.)</b>	<b>2007–08</b>	<b>2009–10</b>
Special Education	\$3,159	\$3,150
Child Care and Development (includes preschool)	1,756	1,827
Class Size Reduction (K–3) <sup>1</sup>	1,830	1,825
Economic Impact Aid	994	946
Proposition 49 After-School Programs <sup>2</sup>	550	550
Pupil Transportation (Home-to-School Transportation, Special Education Transportation, and Small School District and County Office School Bus Replacement)	228 <sup>3</sup>	496 <sup>4</sup>
Quality Education Investment Act (QEIA) <sup>5</sup>	268	375
Child Nutrition	136	146
Student Assessment	85	69
English Learners	64	51
Year-Round Education Grant Program	97	47
Charter School Facility Grants	18	45
Partnership Academies	23	19
Apprenticeship Program	19	16
Foster Youth Services	19	15
Early Mental Health	15	15
Adult Education in Correctional Facilities	18	15
Fiscal Crisis & Management Assistance Team (FCMAT) (2007–08 includes California School Information Services Administration)	17	9
K–12 High Speed Network	10	8
Advancement Via Individual Determination (AVID)	9	8
Agriculture-Vocational Education Incentive Grants	5	4

Note: This list does not include the handful of programs funded at less than \$1 million.

1. See page 13 for an explanation of changes to this program.
2. This program is funded by a continuous appropriation and does not appear in the Budget Act.
3. The 2007–08 figure does not include \$250 million from the Proposition 98 Reversion Account and \$99 million from the Public Transportation Account.
4. See page 10 for an explanation of recent funding changes to this program.
5. The 2007–08 amount was for the first year of implementation; state law required an increase in subsequent years. See page 9 for more information on QEIA.

choose to implement larger classes, this new policy could be seen as freeing up CSR money. (See below for more on the changes to the K–3 CSR program.)

State leaders maintained the requirements for more than 20 other programs. Of those, nine programs—most of them large—were not cut substantially. Examples include Special Education, Economic Impact Aid, Child Nutrition, and the after-school program created by Proposition 49. Now referred to as Tier 1 programs, those nine (plus Early Mental Health, which is run by the Department of Mental Health but which provides funding to school agencies) total about \$9.6 billion statewide in 2009–10.

In addition, 11 relatively small programs have been cut nearly 20%, while their requirements have been maintained. In total, the state is providing about \$300 million for those programs in 2009–10. Examples of programs in this set, known as Tier 2, are English Learner Student Assistance and Foster Youth Programs. The nonflexible programs are listed in Figure 5 on page 12.

#### K–3 Class Size Reduction: Considerable flexibility is granted

In one sense, state leaders demonstrated a political commitment to small classes in the early grades by placing the K–3 Class Size Reduction (CSR) program in Tier 1, protecting it from cuts and maintaining most of its requirements. However, they also loosened the penalties for exceeding the program’s student/teacher ratio to help districts manage their budgets. The flexibility applies to 2008–09 through 2011–12.

From 1996–97, when the CSR program began, until September 2004, districts received grants for every K–3 student in a classroom with a student/teacher ratio of 20-to-1 or lower. To receive the funds, a district had to reduce the ratio in all classrooms first in grade 1, then grade 2, and then they had a choice of reducing classes in kindergarten or grade 3. For any class that exceeded a yearly average of 20 students per teacher, the district would lose the per-pupil grants for the entire class.

In 2004, Senate Bill 311 created a sliding scale of penalties for exceeding the 20-to-1

figure 6 | Lawmakers significantly reduced penalties for larger K–3 class sizes

Under Senate Bill 311, 2004		New Flexibility: 2008–09 Through 2011–12	
Average number of students per class	Penalty	Average number of students per class	Penalty
Up to 20.44	No penalty	Up to 20.44	No penalty
20.45–20.94	20% penalty	20.45–21.44	5% penalty
20.95–21.44	40% penalty		
21.45–21.84	80% penalty	21.45–22.44	10% penalty
21.85+	100% penalty	22.45–22.94	15% penalty
		22.95–24.94	20% penalty
		24.95+	30% penalty

In 2004, Senate Bill 311 created a sliding scale of penalties for exceeding the 20-to-1 student-teacher ratio required by the K–3 Class Size Reduction (CSR) program. As part of the February 2009 budget package, state leaders loosened those penalties considerably.

DATA: CALIFORNIA DEPARTMENT OF EDUCATION (CDE), LEGISLATION

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ratio. The February 2009 budget package made the penalty schedule considerably more lenient beginning in 2008–09. However, districts will receive CSR incentive funding for no more than 20 students per classroom. (To see how the penalties have changed, see Figure 6.)

#### State policymakers have granted local agencies flexibility in several areas

Just as policymakers have made categorical funding more flexible, they have provided more flexibility in a number of other areas as well. Two of those areas pertain directly to instruction: the length of the instructional year and the materials that students use to help them learn the state’s academic content standards. Other items are about financial management: reserves, set-asides for facilities maintenance, and use of proceeds from selling surplus property. The new flexibility provisions are briefly described below.

**School year:** Under the July 2009 budget, local education agencies may reduce their school year from 180 to 175 days through 2012–13. (Charter schools, which have only a minimum minutes requirement, can reduce their instructional minutes by an equal amount.)

This measure potentially gives LEAs added flexibility to reduce their expenditures in response to revenue reductions. With about 85% of LEA expenditures going

toward staff compensation and benefits, a shorter school year would allow districts to save money primarily through reductions in total compensation costs without cutting salary levels per se or laying off staff. However, districts can only take advantage of such savings if their collective bargaining agreement with employees will allow it. Employment contracts negotiated with unions generally cover the amount of time employees are to work, their compensation (which is related to time worked), and often staff-to-student ratios. With salaries determined partly by the state’s labor market and the number of employees hard to reduce given California’s already low staffing ratios (see figure 7 on page 14), policymakers chose to give districts some flexibility in the amount of time their employees must work. If a district’s management and employees can agree on a reduced work year, it can help the district bring expenditures in line with revenues.

Some school districts are actively considering this option, and more may do so for 2010–11. For example, in late October, Los Angeles Unified School District Superintendent Ramon Cortines asked his chief financial officer to study shortening the school year to help with an expected shortfall of at least \$500 million. Oxnard Union High School District—also in southern California and with about 17,000 students—reportedly planned

**figure 7** | Even before the 2008–09 budget cuts, staffing ratios in California ranked near the bottom nationally

Ratio of Staff to 1,000 Pupils by Position, Fall 2007–08				
	California Rank in U.S.	U.S. Ratio	California Ratio	% of U.S. Ratio
Total staff to students	49	128.1	93.2	73%
All professional (certified) staff to students	50	72.1	52.3	73%
Total district staff (including classified staff)	37	6.4	5.3	83%
District officials/administrators only	47	1.2	0.5	40%
Total school staff (including classified staff)	50	96.5	71.0	74%
Certified school staff only	50	70.9	51.9	73%
School principals & asst. principals	48	3.2	2.3	72%
Guidance counselors	50	2.1	1.2	58%
Librarians	51	1.1	0.2	18%
All teachers	50	64.5*	48.1*	75%
Elementary teachers (grades 1–8)	33	49.8	48.4	97%
Secondary teachers (grades 9–12)	51	83.9	42.8	51%

\*These numbers translate into a student/teacher ratio of 20.8 students to 1 teacher for California and 15.5 to 1 for the entire U.S. Only Utah had a higher student/teacher ratio than California in 2007–08.

Notes: The numbers in this table are based on fall enrollment data and include pre-K public school students and their teachers. NCES estimated that there were 68,002 pre-K students and 4,110 pre-K teachers in California in 2007–08. If the pre-K students and teachers are not included, California's student/teacher ratio is still 20.8.

The District of Columbia is included among the states.

The "Total staff" row includes all district and school staff plus those who fall under the NCES category All Other Support Staff.

DATA: NATIONAL CENTER FOR EDUCATION STATISTICS (NCES) COMMON CORE OF DATA, 2007–08

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## The state scales back testing requirements

In July 2009, policymakers exempted Special Education students, beginning with the class of 2010, from the exit exam graduation requirement until an alternative method for demonstrating academic achievement is established or the State Board of Education determines an alternative to be infeasible. This was not a cost-savings measure, however; these students must continue to take the test for federal accountability purposes.

In addition, beginning in 2009–10, the state will no longer administer the 4th grade writing assessment in order to reduce the \$86 million testing budget by about \$17 million. Seventh graders will continue to be assessed on their writing skills.

to cut its school year by six days, from 183 to 177. And Ojai Unified, a district with 3,152 students in Ventura County, in August approved moving to 175 days. The teachers' union had previously agreed to the shortened year and a commensurate reduction in pay.

**Instructional materials:** Since 2003, districts have been required to provide their students with instructional materials aligned to state content standards within two years of a State Board of Education (SBE) materials adoption (for K–8 students)

or their own adoption (for students in grades 9–12).

The February budget package placed the funds for instructional materials into the flexible category for 2008–09 and 2009–10 and exempted districts from the requirement to purchase materials within two years of an SBE adoption. The July 2009 budget expanded the flexibility and effectively put the state's entire curriculum adoption process on hold for several years. It extended the February exemption through 2012–13. Districts must still have standards-aligned materials for their students, but they may be from a prior SBE adoption. The July budget package also prohibited, until 2013–14, the State Board of Education from adopting additional instructional materials and updating the curriculum frameworks that guide publishers' development of instructional materials.

**Reserve levels:** The July budget reduced school districts' required reserve for economic uncertainties for 2009–10 and 2010–11 to one-third of the percentage normally required by the SBE. In 2010–11, local agencies must show progress toward restoring the minimum reserve. And in 2011–12, the reserve must be back to the SBE-established minimum. The reserve requirements, as established in March 2008, range from 0.3% for districts with more than 400,000 students to 1.7% for districts with 300 or fewer students.

**Ending fund balances:** LEAs are now allowed to redirect any 2007–08 ending fund balance from about 50 categorical programs to any other educational purpose in 2008–09 and 2009–10. Until February 2009, local agencies were required to use ending fund balances consistent with the requirements of the program in which a balance existed.

The July budget altered the list of programs with ending fund balances that can be redirected. It added Adult Education, Deferred Maintenance, and Pupil Transportation Equipment and removed the Targeted Instructional Improvement Grant, California High School Exit Exam Intensive Intervention, and Instructional Materials programs.

**figure 8 | Ongoing federal funding is stable, and the economic stimulus is providing one-time funds**

As described earlier, California is receiving more than \$7 billion in federal categorical funding in 2009–10. That funding level is largely consistent with amounts provided in the recent past. One notable exception within that set of programs is the amount of funding for charter schools. From 2007–08 to 2009–10, under former President George W. Bush's policies, federal support for charters in this state more than doubled.

In addition, the state is receiving more than \$6 billion for K–12 education through the federal stimulus package. However, that funding, much of which has been received already, is intended for 2008–09 through 2010–11 and is not ongoing money.

### Major Federal Programs

This table compares federal categorical funding in 2007–08 with funding in 2009–10. It also displays estimated federal stimulus funding.

<b>(All dollar figures are rounded to the nearest million.)</b>	<b>2007–08</b>	<b>2009–10</b>	<b>Federal Stimulus Estimates, 2008–09 and 2009–10</b>
State Fiscal Stabilization Fund			\$3,243
ESEA Title I—Extra Support for Students who Live in Poverty	\$2,012	\$2,011	\$1,490
Basic Grants	1,608	1,616	1,125
Reading First	170	27	
Migrant Education	133	138	
School/LEA Improvement	71	204 <sup>1</sup>	352
Even Start	17	8	
Homeless Children Education (McKinney-Vento)	7	13	14
Advanced Placement Fee Waiver	3	4	
Neglected and Delinquent Children	3	3	
Child Nutrition (includes summer food service program)	1,645	2,035	13
Special Education (includes preschool)	1,161	1,860	1,268
Child Care and Development Programs (includes CalWORKs)	601 <sup>2</sup>	551	220
ESEA Title II—Improving Teacher and Administrator Quality	376	374	72
Part A—Improving Teacher Quality	311	311	
Education Technology	32	29	72
Math and Science Partnership Grants	27	28	
Subject Matter Projects	4	4	
Administrator Training Program	2	2	
ESEA Title IV—21st Century Schools	221	199	
After-School Programs (21st Century Community Learning Centers)	186	169	
Safe and Drug Free Schools and Communities	35	29	
ESEA Title III—English Learners and Immigrant Students	164	172	
Vocational Education	140	140	
Adult Education	77	79	
Charter School Grants	21	46	
ESEA Title VI—Assessment Funding	33	24	
ESEA Title V—Innovative Programs	11	0 <sup>3</sup>	
Robert C. Byrd Honors Scholarships	5	5	
CalServe K–12 Service Learning Initiative	2	2	
Instructional Support (Rural and Low-Income Schools)	1	1	

Note: Subprograms may not add up to the total funding for a particular ESEA Title due to rounding.

- Most of the increase from 2007–08 results from a large new effort to help local education agencies in corrective action.
- Funding was substantially lower than in prior years. For example, the total funding in 2006–07 was \$963 million. In 2007–08, the state shifted \$269 million in federal funding to purposes other than child care and used state funding to offset the shift.
- The federal authorization for this program ended in 2009.

## The 2009–10 budget continues to provide virtually no funding for mandate reimbursements

When California voters approved Proposition 4 in 1979, they enshrined in the state constitution a guarantee that the state would reimburse local governments—such as school districts and county offices of education—for the cost of implementing any new state-required program or higher level of service. However, the state has not lived up to its obligation, and the LAO in October 2009 estimated a backlog of \$1 billion in unpaid K–12 education mandate claims by the end of 2009–10.

The July budget continued the state’s practice of providing only a token sum to districts to cover the cost of meeting 39 state mandates. (The budget contains \$1,000 per mandate, which keeps the mandates active but does not put a dent in the statewide cost of implementing them.) This was despite the ruling of a San Diego Superior Court in December 2008 that this practice was illegal. The Schwarzenegger administration has appealed that ruling, so the decision is not in effect.

A related recent development concerns three specific mandates. At issue are claims for the cost of 1) fulfilling certain open meeting or Brown Act requirements, 2) filing for reimbursements, and 3) completing the School Accountability Report Card. In 2005, policymakers enacted Assembly Bill 138, which essentially disallows reimbursement of claims in those three areas. The California School Boards Association Legal Alliance successfully challenged the law. Thus, beginning in September 2009, claims for those three activities are again considered reimbursable, beginning with claims dating back to 2005–06. Despite the legal decision, the state’s fiscal condition likely means that local education agencies will not actually receive reimbursement in the near future, however.

**Routine Restricted Maintenance:** Previously, districts participating in the state’s School Facilities Program—which provides state aid for facilities construction and modernization—were required to set aside 3% of their total general fund expenditures in a Routine Restricted Maintenance account. In February, policymakers reduced required contributions into that account from 3% to 1%. And in July, the state eliminated the requirement entirely for LEAs with facilities in good repair. The changes are in effect for five years (through 2012–13).

**Deferred maintenance:** Districts had been required to set aside 0.5% of revenue limit funding for deferred maintenance of their facilities. In February, policymakers eliminated this requirement through 2012–13. And, as noted earlier, districts’ deferred maintenance ending fund balance from 2007–08 can be redirected to any other educational purpose. The July budget did not make any changes.

**Sale of surplus property:** In July, policymakers also loosened restrictions for how school districts can use proceeds from the sale of surplus property purchased entirely with local funds. In the past, districts could use those funds only for capital costs. This flexibility comes with several conditions, however, and it ends on Jan. 1, 2012. Any revenues that a district gained through this new flexibility would be one-time general purpose money and therefore must be used for one-time purposes as it could not sustain ongoing expenses, such as salaries.

Although the temporary flexibility described above will help districts manage through the current fiscal crisis, it is not likely to fully compensate for the funding cuts and deferrals that districts must contend with—especially with expectations regarding academic performance continuing to increase under state and federal accountability provisions.

### IN THIS SECTION

- The average unified school district would be receiving 22% more revenue limit funding this year if the economy had remained healthy
- Funding deferrals force many local agencies to borrow to maintain cash flow

## Local education agencies face significant challenges

Along with escalating expectations regarding student performance, school agencies must also contend with rising costs, particularly employees’ health and welfare benefits. For the foreseeable future, they must do so in the face of spending cuts, deferrals, and ongoing budget uncertainties. The discussion above described those budgetary actions from a state-level perspective. The following discussion explains what those changes look like to a typical school district.

### *The average unified school district would be receiving 22% more revenue limit funding*

The cuts to revenue limit funding described on pages 8–9 represent a substantial amount per

pupil. In 2007–08, the average unified district received \$5,821 per pupil. If the district had received that amount plus adjustments to keep up with the cost of living—a 5.66% COLA in

2008–09 and a 4.25% COLA in 2009–10—it would have \$6,411 per pupil today. However, not only were those COLAs eliminated, but the average unified district has also taken the



following per-pupil reductions:

- \$153 in 2008–09 (ongoing);
- \$434 in 2009–10 (ongoing); and
- \$250 in 2009–10 (to pay for the one-time \$1.6 billion cut to retroactively lower 2008–09 Proposition 98 spending).

Because of these actions, revenue limit funding for the average unified school district is \$4,984 per pupil in 2009–10. That is 22% lower than it would have been in normal circumstances and about 14% lower than the amount provided in 2007–08. Figure 9 provides a graphic representation of the effect of these revenue limit cuts. Not reflected in the figure is the reduction arising from the QEIA funding plan described on page 9.

*Funding deferrals force many local agencies to borrow to maintain cash flow*

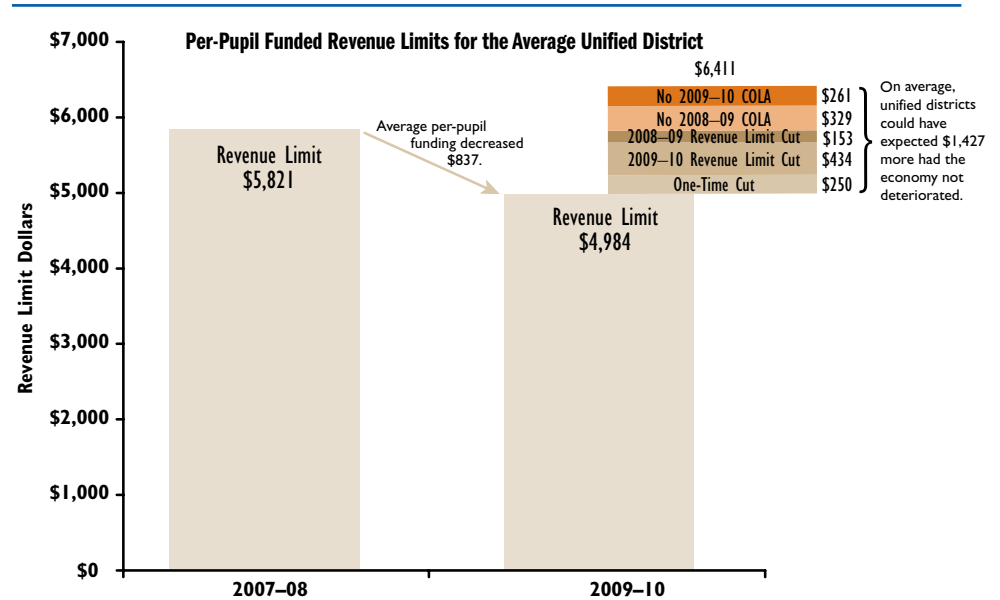
In addition to cutting school agencies' funding, the state has passed some of its cash flow problems down to them by delaying several large payments. Districts have a few methods for managing their cash balances, and it has become especially important for them to employ these methods and monitor their cash flow carefully.

One way for local education agencies to address cash flow dips is to use internal borrowing. This involves temporarily moving monies from certain funds—such as a building fund—to others with more pressing payment obligations. State law requires that the original fund be repaid within the same year or in the following year if the borrowing occurs within 120 days of the end of the fiscal year. In addition, local agencies cannot transfer more than 75% of any one fund, and the borrowing fund must earn enough income during the current fiscal year to repay the amount transferred.

Another option for districts is borrowing from an outside source, such as their local county office of education. Such loans can address cash flow issues for the district in the short term, but they may come with interest costs.

Districts can also issue tax and revenue anticipation notes (TRANs). Or they can borrow from the county treasury. State law puts certain restrictions on these loans,

**figure 9** In addition to losing its customary COLA, the average unified district has suffered a 14% cut to its revenue limit income since 2007–08



In normal circumstances, the average unified district's revenue limit funding would have included COLAs, increasing funding from \$5,821 per pupil in 2007–08 to \$6,411 in 2009–10. Instead, funding cuts in 2008–09 and 2009–10 reduced revenue limit funding for the average unified district to \$4,984 per pupil—14% less than in 2007–08. Cuts in high school and elementary districts were similar.

DATA: SCHOOL SERVICES OF CALIFORNIA

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however. For example, the amount lent must not exceed 85% of taxes levied on behalf of the school district. In addition, loans must be made before early April, and the county treasury gets first call on the district's subsequent revenues until the loan is repaid. Districts must pay interest on these forms of borrowing.

The financial ratings of districts across the state indicate that a growing number will have to rely on such borrowing—and perhaps more extreme measures—to make it through the next few years.

*The number of local education agencies at risk of insolvency continues to rise*

At least twice per year, local education agencies self-certify their ability to meet their financial obligations and submit that certification to their overseeing agency for approval. Districts submit the documents to county offices of education, and county offices submit theirs to the California Department of Education. The three possible certifications are:

- **Positive:** the LEA will meet its obligations for the current fiscal year and subsequent two fiscal years;
- **Qualified:** the LEA may not be able to meet its obligations for the current fiscal year or two subsequent fiscal years; and
- **Negative:** the LEA will be unable to meet its obligations for the remainder of the fiscal year or the subsequent fiscal year.

Because districts are largely dependent on the state for their revenues, many of their financial statements are reflecting some of the fiscal trouble that the state has had during the past several years. Figure 10 on page 18 shows the number of local education agencies with qualified or negative certifications in 1999–2000 through 2008–09. It is clear that the number of local agencies facing financial trouble has grown significantly in recent years.

However, federal stimulus funding is helping school agencies manage the fiscal crisis. The aid may already have helped reduce the number of qualified certifications from 2007–08 to 2008–09 and may prevent more of those certifications in the short term. In conjunction

with receipt of that funding, state policymakers in Sacramento have prohibited county offices of education from assigning districts a qualified certification if the problem in the last year of the three-year forecast is substantially due to the loss of stimulus funds. In the short term, this policy action may make it appear that fewer districts are in trouble. However, it does not make any less real the financial risk that districts run if they commit the federal money to ongoing expenses without a clear plan for when the funding disappears.

### Federal stimulus funding has strings attached

Stimulus money comes with reporting requirements. For example, in return for State Fiscal Stabilization Fund dollars, districts must describe their system of evaluating teachers and whether it includes student achievement outcomes. In addition, if the evaluation system uses performance levels, the district must report the number and percent of personnel rated at each level and whether the information on teachers is publicly available.

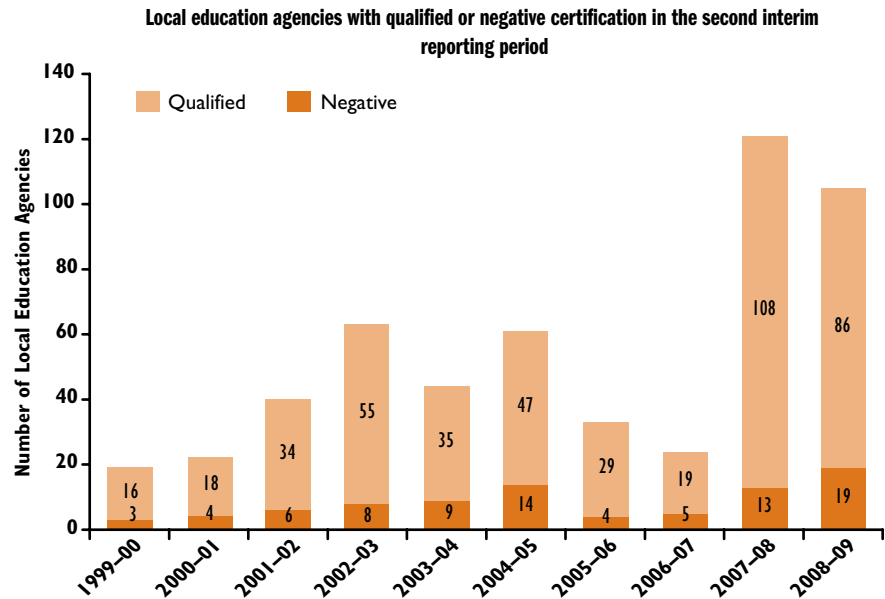
Another reporting requirement, which may be more burdensome, relates to the exact uses of Stabilization funding. For example, each quarter, districts must document the number of jobs created or retained, the status of projects funded by stimulus monies, vendors paid, and the districts' five most highly paid individuals, among other items. (To learn more about the federal stimulus, see: [www.edsource.org/pub\\_new-fed-policies.html](http://www.edsource.org/pub_new-fed-policies.html))

### Charter schools are taking their share of cuts

California's method of funding charter schools and the amount they receive is derived from the general school funding system. Charters receive a general purpose block grant that is similar to districts' revenue limit funding in purpose and amount. In addition, charters automatically get categorical program dollars through a discretionary block grant and may apply for other categorical funding. Charters also receive lottery funds and a discretionary grant in lieu of Economic Impact Aid (EIA), a program to support instruction of disadvantaged students.

Charters' general purpose block grant amounts vary depending on the grade span

figure 10 | The number of local education agencies facing fiscal challenges has increased dramatically in recent years



Notes: Districts and other local education agencies are required to file two interim reports each fiscal year on the status of their fiscal health. The first report covers the period ending Oct. 31, and the second report (shown in the chart above) covers the period ending Jan. 31.

All "negative" totals consist solely of school districts. The "qualified" totals are also mostly school districts, but they do include one county office of education (COE) in 2005-06 and 2006-07, two COEs in 2007-08, and two COEs and one Regional Occupational Program in 2008-09.

DATA: STATE CONTROLLER'S OFFICE (SCO), CALIFORNIA DEPARTMENT OF EDUCATION (CDE)

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and are based on the average of what the state pays in revenue limit funding. Therefore, these funds have foregone COLAs and have been cut just as school districts' revenue limit funding has, resulting in a roughly 14% drop between 2007-08 and 2009-10.

Charter schools' categorical block grant is provided in place of a few dozen categorical programs for which districts receive funding. Since 2007-08, charters were scheduled to receive \$500 per pupil for the categorical block grant; but that year the funding was prorated at 92%, so they actually received \$460 per pupil. In 2009-10, they are getting \$401 because the block grant was placed in Tier 3 and thus received a 20% cut.

Charters cannot apply separately for categorical programs included in the block grant (cannot be double funded). But they can apply for other programs—such as K-3 Class Size Reduction and school lunches as well as smaller programs—outside the block grant. Any state cuts to these programs would also affect charter schools.

Like noncharters, charter schools also receive Special Education funding and must use a portion of their general purpose funds to cover the costs of educating any special-needs students whom they serve when state and federal funds are inadequate to fully fund those costs. Charters serving these students are expected to receive their share of stimulus funds allocated to Special Education.

Charter schools also receive extra general purpose money for each student who is identified as low-income or an English learner. This is in lieu of the EIA funding that school districts receive. Charters are getting \$318 per eligible pupil in 2009-10. This is the same amount as was received in 2007-08, reflecting EIA's Tier 1 status. Students who are both low-income and English learners generate double the amount, similar to what happens with noncharter schools. Some charter schools also receive federal Title I funds to provide extra support to these students. In addition, they receive the same per-pupil amount that districts get from the state lottery.

Finally, charters can access state bond funds for facilities construction. If they are serving a low-income population, they can also receive rent or lease assistance through a separate program for charters. Policymakers have substantially expanded this rent-assistance program since it began in 2001 to respond to steady growth in the number of charter schools. In addition, the July budget converted the program from providing reimbursements to providing grants for current costs.

**figure 11** | The general purpose block grants for charter schools have decreased commensurately with the revenue limit funding reduction

Charter School General Purpose Block Grants		
Grade Span	2007-08	2009-10 (estimates)
Kindergarten-Grade 3	\$5,586	\$4,778
Grades 4-6	\$5,670	\$4,855
Grades 7-8	\$5,832	\$5,003
Grades 9-12	\$6,767	\$5,845

DATA: CALIFORNIA DEPARTMENT OF EDUCATION (2007-08); SCHOOL SERVICES OF CALIFORNIA (ESTIMATES FOR 2009-10)

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#### IN THIS SECTION

- Efforts to increase education funding continue
- The California School Boards Association (CSBA) may file suit against the state for inadequate education funding

## Will Californians decide their schools have been cut enough?

A forecast by the Legislative Analyst's Office presages further fiscal difficulties for the state and for schools. *California's Fiscal Outlook*, released in mid-November 2009, reflects tax provisions and spending requirements under current law as well as projections about California's economy, demographics, revenues, and expenditures. In the report, the LAO forecasts a deficit of \$6.3 billion for 2009-10, \$14.4 billion for 2010-11, and about \$20 billion each year for the subsequent four years.

Part of the current year's projected budget gap is due to an increase in the Proposition 98 minimum guarantee of nearly \$1 billion. This increase occurs because the guarantee is determined partly by year-to-year changes in state revenues. Current tallies show that revenues for 2008-09 proved even worse than expected, meaning that the growth from 2008-09 to 2009-10 turned out to be better than expected. This one-year growth in revenues has pushed up the Proposition 98 guarantee for 2009-10.

These projections are not policy decisions, however. School agencies cannot bank on a funding increase in the middle of the year. Even the LAO states that lawmakers will likely want to wait until May 2010, when better information about 2009-10 will be available, to make any decisions about current year education funding. Such late-year policy changes could again cause school agencies to scramble to change plans set months earlier.

Although school agencies are advised not to make decisions based on the recent LAO report, they will be building their preliminary

2010-11 budgets knowing that several major forecasts—not just the LAO's—provide a very dim outlook for the near term. It remains to be seen whether these grim projections will cause the public to say additional education cuts are unacceptable and rally around proponents of increased school funding.

#### *Efforts to increase education funding continue*

Advocates are exploring ways to help school agencies fill the gaps caused by state funding cuts or to even increase education revenues statewide. Some are focusing on local parcel taxes, while others talk of an "adequacy" lawsuit.

The Legislature has periodically considered but failed to pass a constitutional amendment that would lower the parcel tax approval threshold from two-thirds to 55%, the same as facilities bond measures. In 2009, Senator Joe Simitian proposed such a measure, but it did not make it out of committee. If such a measure were to pass the Legislature, it would need to be subsequently approved by the public.

Meanwhile, a group of private citizens called Californians for Improved School

Funding want to take the idea directly to the public. They have filed an initiative with the California Secretary of State but have not begun gathering signatures.

Lowering the approval threshold could make a substantial difference in the success rate of parcel tax elections. Of the 486 parcel tax elections held between 1983 and June 30, 2009, 261 (54%) passed. More recently, from March 2007 through June 2009—when schools have had to absorb substantial state funding cuts and delays—communities have achieved a 72% passage rate. If a 55% supermajority option had been available for the 74 parcel taxes attempted recently, the success rate would have been 96%. However, if the threshold were lowered, that hypothetical success rate would not necessarily carry over to the state as a whole.

Another recent attempt to increase access to parcel taxes, Assembly Bill 267, was vetoed by the governor. The measure would have given school districts a new way to seek parcel tax approval and would have made it easier for low-income school districts to benefit from parcel taxes. The bill would have allowed

multiple contiguous school districts to collectively create an “education finance district.” These education finance districts would have been allowed to enact parcel taxes and would have been prohibited from preventing districts with high proportions of low-income households from participating. In his veto message, the governor expressed concern that “voters and property owners in one county or school district could be subject to an increased special tax based on votes generated predominantly in another county or school district.”

Even if parcel taxes did become a more accessible option for districts across the state, they would not necessarily raise huge sums of money. For example, in Alum Rock Union—a district in Santa Clara County serving mostly low-income families—a parcel tax garnered about \$161 per student in 2007–08. Even in San Marino Unified, a high-income district near Los Angeles, a parcel tax brought in about \$472 per student—less than 10% of the typical unified school district’s revenue limit funding. Some advocates of greater education funding, instead of pushing to revise parcel tax requirements, are putting their energy into a legal challenge of the current funding level systemwide.

### To Learn More

Go to the EdSource website, [www.edsources.org](http://www.edsources.org), for:

- the latest on school finance under News and Policy Updates.
- a brief about California community college funding.
- an October 2009 report on the federal stimulus.

Also see *California’s Fiscal Outlook* at: [www.lao.ca.gov](http://www.lao.ca.gov)

### Acknowledgments

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### *The California School Boards Association may file suit against the state for inadequate education funding*

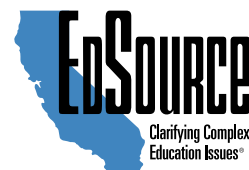
The California School Boards Association (CSBA) is formulating a plan to file an “adequacy” lawsuit in early 2010. The adequacy concept involves determining the level of resources schools should receive based on a definition of the educational goals of the system. In California, the widely agreed-upon, though not codified, goal of the public K–12 education system is to help all students achieve proficiency on the state’s rigorous academic content standards.

Adequacy lawsuits have been used in recent years to compel states to first determine how much it costs to educate students to meet certain standards, and then to fund schools at or close to that level. The CSBA suit will allege that California is not living up to the state constitution’s requirement “to provide for a system of common schools by which a free school shall be kept up and supported....”

Whether these attempts at increasing school revenues succeed or not, Proposition 98 provides some assurance that more funds will flow to schools when the economy recovers. On top of the increases based on the minimum guarantee, that should include \$10.1 billion in maintenance factor payments. However, the ongoing Proposition 98 guarantee will probably not be fully restored until well into the future.

For the next several years, extremely lean education budgets will likely be the “new normal,” and school leaders are preparing for still more cuts. They must do so despite unrelenting pressure to improve student performance and increase student learning.

Will there come a time in the near future when Californians decide that their state simply cannot afford to cut its investment in education any further? And is there a way for schools to dramatically change the way they operate so that they can do a lot more with less? Likely both of these must occur, or the future of this generation of public school students will look increasingly grim. 



**Trish Williams**

*EdSource Executive Director*

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