



School Finance Highlights 2005–06

For the 2005–06 California state budget, the education funding decision was particularly contentious, revolving around Proposition 98, the minimum-funding guarantee for schools and community colleges.

State allocation rests on an interpretation of 2004–05 policy actions

Total Proposition 98 funding for K–12 schools and community colleges is about \$50 billion. That total is about \$3 billion more than was allocated in 2004–05, but it is also about \$3 billion less than education advocates believed it should be under state law. At the heart of the issue is what level of funding the state was obligated to provide in 2004–05.

Proposition 98 sets a minimum guarantee for state education funding each year. The exact amount is based on specific formulas. Under Proposition 98, education spending in a given year largely hinges on what was spent the year before. The unprecedented suspension of Proposition 98 last year with the express purpose to decrease the 2004–05 allocation to schools created both ambiguity and dissension.

To legally provide less than the Proposition 98 guarantee, two-thirds of the Legislature has to agree to a suspension. In previous years, the education coalition fought that action vociferously. In 2004–05, however, Gov. Arnold Schwarzenegger and the education coalition agreed to a suspension, based in part on education's understanding that Proposition 98 funding would be reduced by the specific amount of \$2 billion. If state revenues exceeded projections, schools would get more; and if revenues were less than projected, schools would get less.

In January 2004 that agreement meant that schools would get \$46.9 billion in 2004–05, a reduction of \$2 billion from the estimated minimum guarantee of \$48.9 billion. The Legislature ratified the deal in Senate Bill (SB) 1101 (enacted as Chapter 213, Statutes of 2004).

After the budget was signed, it became clear that state revenues were going to exceed estimates. Under normal circumstances that

would have been good news for schools because it would increase the Proposition 98 minimum guarantee. However, that increase in funding for education did not occur. Instead, the governor and Legislature left the funding level for 2004–05 at its original amount, as if state revenues had not risen. State officials then used that lower number as the base from which the minimum guarantee for 2005–06 would be calculated. Legislators based their action on an interpretation of the suspension of Proposition 98 as a suspension of all related obligations.

Figure I illustrates how this series of actions ended up affecting K–12 schools and community colleges this year and also shows the relationship of the minimum guarantee to actual funding over time.

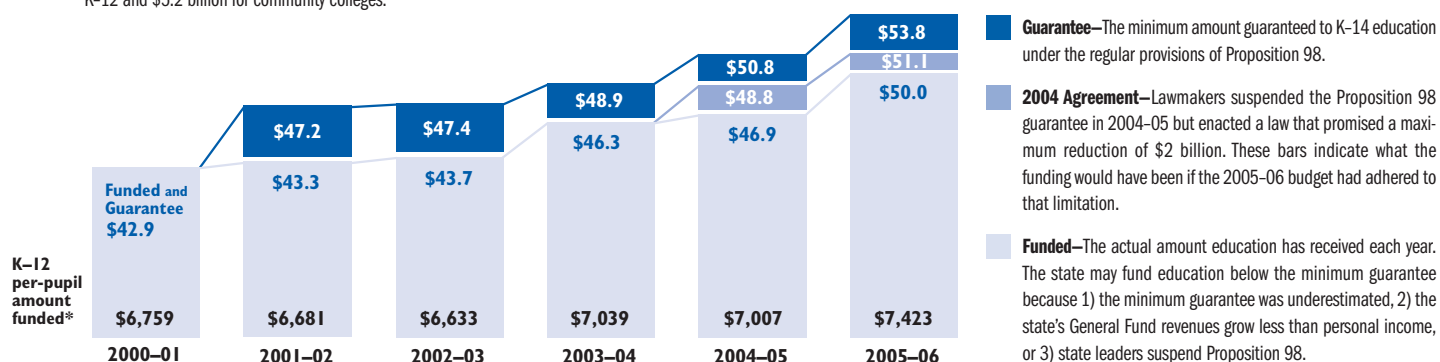
CTA and State Superintendent O'Connell are suing the state

The decision to leave the 2004–05 funding level at its original amount is consistent with a fiscal analysis published by the Legislative Analyst's Office (LAO) in November 2004. The LAO cautioned that if the Legislature adjusted Proposition 98 funding for 2004–05 to the Chapter 213 target level (\$2 billion below the calculated Proposition 98 guarantee for 2004–05), almost the entire increase in state revenues would go to education, leaving the state with a deficit of \$6.7 billion. The LAO estimated that by simply not taking action to increase the 2004–05 appropriation, and then calculating the 2005–06 guarantee on that lowered base, the state could reduce its expenditures by \$2.8 billion and bring the year-end deficit down to \$3.9 billion, protecting other programs from cuts and alleviating the need for the state to borrow money or raise taxes.

On the other hand, education advocates say that schools were due more funds because the language in Chapter 213 specifically sets out the \$2 billion as the agreed-upon reduction. In August 2005 the California Teachers Association (CTA) and State Superintendent of Public Instruction Jack O'Connell filed suit against the governor and other state officials, charging that the state's education allocations for

figure 1 | K–14 education has been funded below the Proposition 98 guarantee since 2001–02 (all dollar amounts are in billions)

These totals are for K–12 education and community colleges combined. In 2005–06, the \$50 billion total includes \$44.8 billion for K–12 and \$5.2 billion for community colleges.



Guarantee—The minimum amount guaranteed to K–14 education under the regular provisions of Proposition 98.

2004 Agreement—Lawmakers suspended the Proposition 98 guarantee in 2004–05 but enacted a law that promised a maximum reduction of \$2 billion. These bars indicate what the funding would have been if the 2005–06 budget had adhered to that limitation.

Funded—The actual amount education has received each year. The state may fund education below the minimum guarantee because 1) the minimum guarantee was underestimated, 2) the state's General Fund revenues grow less than personal income, or 3) state leaders suspend Proposition 98.

*Based on Proposition 98 K–12 average daily attendance (ADA) provided by the California Department of Education (CDE).

both 2004–05 and 2005–06 violate the funding obligation under Proposition 98 and state statutes under Chapter 213.

The November election could have a long-term effect on funding

Regardless of how the lawsuit is resolved, under current law the state is obligated to eventually restore \$3.8 billion to the minimum guarantee. Proposition 76—an initiative sponsored by the governor on the Nov. 8 ballot—will give voters a chance to decide, indirectly, whether they believe that restoration is appropriate. For more information, see the EdSource voter guide, *Proposition 76: State Spending and School Funding Limits*, at: www.edsource.org

Total funds for K–12 and community colleges increased

In 2005–06, K–12 schools will receive close to \$45 billion from Proposition 98 sources, plus about \$5.2 billion more from state and local property tax sources that are not part of Proposition 98 funding. Another \$12.3 billion comes from a combination of the federal government, the California State Lottery, and “local miscellaneous” sources. The amounts include:

- State funds: \$36.7 billion (58.9%);
- Local property taxes: \$13.3 billion (21.4%);
- Local miscellaneous revenues, such as community contributions, interest income, revenues from parcel tax elections, and developer fees: \$3.9 billion (6.2%);
- Federal government funds, which are earmarked for special purposes, most notably Child Nutrition, No Child Left Behind (NCLB), Special Education, and childcare: \$7.6 billion (12.3%); and
- Lottery proceeds: \$0.8 billion (1.3%).

Projected California public school average daily attendance (ADA) for 2005–06 is 6.03 million K–12 students plus about 430,000 students in adult education and regional occupational programs.

Community college funding is also governed by Proposition 98

In 2005–06 community colleges will receive about 10.4% of the total Proposition 98 funding of almost \$50 billion. As is the case with K–12, the largest portion of that increase is for a cost-of-living adjustment (COLA) and enrollment growth, estimated at 3%.

Established formulas and priorities determine allocations

Nearly all California school districts receive revenue limit funding as the core of their general operating budgets. Approximately two-thirds of this year’s increase in Proposition 98 funds goes to school districts for revenue limit increases, including:

- \$189.7 million to cover the cost of 41,095 additional students statewide (an estimated growth rate of 0.7%);
- \$1.3 billion for a legally required cost-of-living adjustment (COLA) of 4.23%; and
- \$406 million to address a deficit in revenue limit funding from previous budgets.

The budget also includes \$60.6 million to reimburse districts for extra costs they have incurred in order to meet specific state mandates.

Policy actions on categorical programs are limited in 2005–06

Another substantial portion of the funding increase covers enrollment growth and COLA for the majority of state categorical programs, which are earmarked for special purposes. Aside from these increases, changes to categorical programs were minimal.

The largest categorical program is Special Education, which this year receives an additional \$20.2 million for enrollment growth and a \$124 million increase for COLA, bringing state support to a total of almost \$2.9 billion. Federal funds add another \$1.1 billion. The budget also provides an extra augmentation for Special Education, with about \$48 million of it to be used for any one-time purpose. First priority is to provide intensive instruction for students with disabilities in the class of 2006 who have yet to pass the California High School Exit Exam (CAHSEE).

Several new initiatives get one-year funding

Education will also receive funds on a one-time basis for a very limited number of new initiatives, such as:

- \$20 million to help students in the class of 2006 who have not yet passed CAHSEE.
- \$49.5 million to fund Low-performing School Enrichment Grants for schools in deciles 1–3—the bottom 30% statewide—to meet the special needs at these schools.
- \$18.2 million for the governor’s Fruits and Vegetables for Breakfast initiative so districts can augment school breakfast programs with healthier foods.
- \$196 million to the School Facilities Emergency Repair Account to reimburse districts for emergency repairs at low-performing schools.

This school year will be as difficult for many districts as it was for state leaders

In 2005–06 it appears that California maintained the status quo in terms of education funding. The year also lacked any major new programs.

This statewide perspective, however, obscures the variety of financial situations local districts face. Almost half of the school districts in the state are seeing their enrollment decline, which means a reduction in revenues that can lead to teacher layoffs and school closings in some districts. All districts also face pressure from rising health insurance premiums, escalating energy costs, and likely salary demands.

The balancing act between revenues and expenditures is difficult for school district leaders, just as it is for California’s governor and Legislature. In years like 2005–06, when budget decisions become the subject of heated controversy, the task becomes more challenging for everyone. ■■

*For a more detailed analysis of the 2005–06 education budget, see *School Finance 2005–06: Budget Sets Off Public Battle* at: www.edsource.org*



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EdSource thanks the **William and Flora Hewlett Foundation** for its investment in our core work.

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