

K-12 Education

This issue memo provides an overview of 1990-91 funding for K-12 education. It was prepared to assist the Legislature in reviewing the Governor's set-aside proposals during the balance of the legislative session.

Average Daily Attendance Funding

Figure 1 provides a historical perspective on total funding per unit of average daily attendance (ADA) for K-12 education for the years 1982-83 through 1990-91, both in current and real dollars. As the chart shows, 1990-91 per-ADA funding will grow 1.5 percent over last year's level. After adjusting for inflation, the per-ADA funding will be lower than in 1989-90. (Much of this drop is due to deferring the state's contribution to the State Teachers' Retirement System unfunded liability into the 1991-92 fiscal year.) However, inflation-adjusted 1990-91 funding will be 13 percent higher than the level of per-ADA funding in 1982-83, immediately prior to the enactment of SB 813 (the Hughes-Hart Educational Reform Act of 1983).

Total Revenue

Figure 2 shows that 1990-91 revenue for K-12 education programs is expected to total \$24.9 billion. This is an increase of \$1.4 billion, or 5.8 percent, over what was available in 1989-90. Figure 2 also shows that K-12 total

funding consists primarily of \$15.5 billion (62 percent) from the General Fund and \$5.1 billion (20 percent) from local property tax revenues. The General Fund amount represents an increase of \$634 million, or 4.3 percent, above the 1989-90 level.

Proposition 98

Proposition 98, the "Classroom Instructional Improvement and Accountability Act of 1988," provides K-12 schools and community colleges with a guaranteed minimum level of

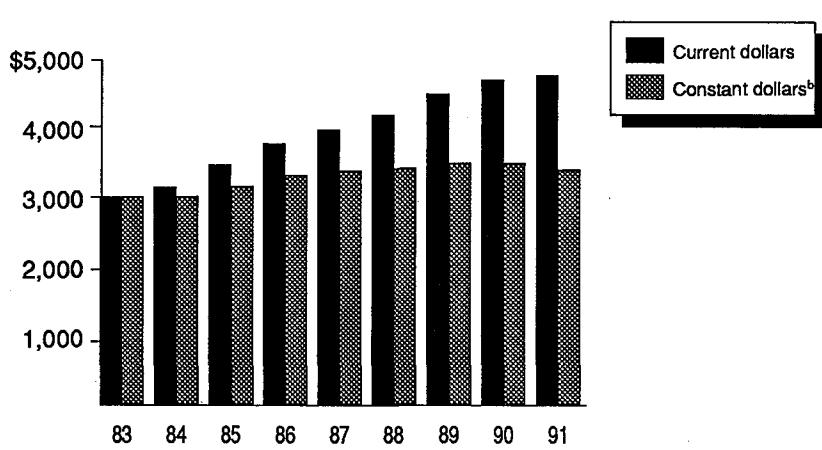
funding in 1988-89 and thereafter. Specifically, the measure provides that K-14 education shall receive the greater of its (a) 1986-87 percentage of the General Fund budget, which was approximately 41 percent (commonly referred to as test one), or (b) prior-year funding level, adjusted for enrollment growth and inflation (referred to as test two).

The state contribution to the Proposition 98 guarantee in the 1990 Budget Act is \$17.1 billion. It is based on the *maintenance of prior-year funding*

Figure 1

K-12 Education Funding Per ADA In Constant and Current Dollars

1982-83 through 1990-91^a



^a Data are for fiscal years ending in years specified.

^b As adjusted by the GNP deflator for state and local government purchases.



Class Size Reduction. In the case of the Governor's proposal to use a total of \$220 million for reducing class sizes in 1990-91, the Legislature will need to decide the level of funding to devote to this purpose. This level of funding would only reduce California's overall pupil-teacher ratio by 1 (from 23 to 22)—not counting any costs for additional school facilities. If, however, the funds were targeted to the recently authorized class size reduction program—Chapter 1147, Statutes of 1989 (SB 666, Morgan)—only \$110 million would be needed per year because the program is limited to grades 1, 2, 3, 9, 10, 11 and 12 in selected subject areas.

If it decides to spend less than the \$220 million suggested by the Governor, the Legislature will also need to determine the purposes for which the balance shall be used (such as partially restoring funding for COLAs, which the Governor reduced to 3.0 percent from the legislatively approved level of 4.76 percent).

Reform Proposals. In other areas where the Governor has not clarified his proposals—year-round school incentives, school restructuring, and a new assessment system—the Legislature will need to enact implementing legislation providing the specifics of various "reforms" requested by the Governor.

In the case of year-round school incentives, for example, the Governor set aside \$27.8 million "to be appropriated in separate legislation to reform this program so that it will achieve its original intent to permanently reduce the need for new school construction"; the Governor did not, however, indicate the specific reforms which he desires. (The Legislature may wish to consider our recent report, *Year-Round School Incentive Programs: An Evaluation*, in which we recommend—among other things—that any alternative program of financial incentives provide school

districts with *no more than 50 percent* of the state's "savings" and include safeguards to ensure that incentives are not merely a subsidy for school districts waiting in line for a state-financed school.) The Legislature will also need to provide specifics for suggested reforms in the areas of the state's student assessment system and restructuring of local schools.

Proposition 98 Reserve

Finally, the Legislature will need to decide on an appropriate level for the Proposition 98 reserve, the primary purpose of which is to ensure that any subsequent decline in the level of the Proposition 98 guarantee (due, for example, to changes in the state's total General Fund revenues) would not cause the guarantee to fall below the level of K-14 funding already appropriated in the Budget Act.

In this regard, the Legislature will need to consider the possibility that General Fund revenues might decline sufficiently from the budget estimates to produce a "low revenue-growth year" reduction in the Proposition 98 guarantee (under the so-called "Test 3" provision added by Proposition 111). We also note that the Governor's veto message indicated that he was providing a Proposition 98 reserve of \$298 million. Our review, however, indicates that this reserve level would result in a \$50 million over-appropriation of the 1990-91 Proposition 98 guarantee. ♦

Figure 3
**K-12 Education Vetoes
1990 Budget Act**

(in thousands)

Proposition 98

Reduce COLAs from 4.76% to 3.0%	\$354,710
Year-round school incentives ^a	43,093
Desegregation programs	10,906
Declining enrollment adjustment	7,300
School restructuring (SB 1274, Hart) ^a	6,800
Transportation equalization	4,000
Child development	4,000
Eliminate Indian Education Centers	2,372
Dropout programs growth	1,413
Other	845
Subtotal, Proposition 98	\$435,439
Non-Proposition 98	
Driver training ^a	\$21,235
Eliminate California Assessment Program ^a	12,422
Unallocated reduction, SDE (estimated)	4,955
Staff development programs	1,651
Textbook clearinghouse	75
California State Summer School for the Arts (est.)	18
Subtotal, Non-Proposition 98	\$40,356
Total Vetoes	\$475,795

^a Governor has proposed "set-aside" funding.**Figure 4****Governor's "Set-Asides" for K-12 Education**(in thousands)
1990-91

Class size reduction ^a	\$189,006
Year-round school incentives	27,768
Driver training	21,000
Assessment system	12,000
School restructuring	6,000
Proposition 98 Reserve augmentation ^b	148,478
Total	\$404,252

^a Total of \$220 million available for class size reduction, when combined with \$31 million appropriated in 1990 Budget Act.^b LAO calculation of remaining amount owed for 1990-91 Proposition 98 minimum funding level.**Issues Related to Set-Aside Legislation**

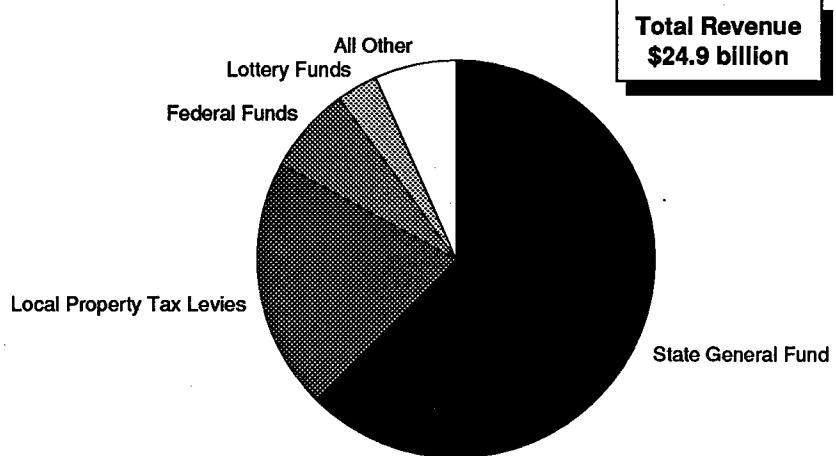
Although the Governor has set aside funding for the specific purposes shown, he does not have the authority unilaterally to order that the funds be spent in this manner. Rather, the use of Proposition 98 funds for the specific purposes indicated will require the enactment of appropriation bills by the Legislature either now or in the next legislative session. If the Legislature and the Governor fail to agree on how the \$404 million in "set-aside" funding shall be spent, these funds will remain available through 1990-91 and most of 1991-92 for appropriation for Proposition 98-eligible programs.

Specifically, current law provides that, no later than April 1, 1991, the Controller and the Superintendent of Public Instruction shall determine the remaining amount owed K-14 education pursuant to Proposition 98. Following this determination, the Legislature has 90 days in which to appropriate this balance for specific Proposition 98-eligible purposes. If the Legislature fails to enact such a measure by the end of the 90-day period, the funding is to be apportioned by the Controller among schools and community colleges based on equal amounts per ADA.

Driver Training Funding Switch. In considering the Governor's proposal, therefore, the Legislature will need to decide whether it wishes to spend Proposition 98 funds for the purposes indicated and—if so—in what amounts. In the case of driver training, the law already designates a source of funding for this program—the Driver Training Penalty Assessment Fund—which receives its revenues from traffic fines. The Governor has not proposed to reduce the fines but instead to transfer the fund's balance to the General Fund.

Figure 2

**The 1990 Budget Act
Sources of K-12 Revenue^a**



^a Figures exclude funding for library programs and the proceeds of state general obligation bond issues for school facilities aid. They include, however, General Fund amounts for debt service on these bonds.

Governor's Vetoes and Set-Asides

Figure 3 summarizes the Governor's K-12 education vetoes which total \$475.8 million. As the figure shows, the Governor vetoed a total of \$435.4 million in Proposition 98 funding, and an additional \$40.4 million in non-Proposition 98 funding.

Of the \$475.8 million vetoed, the Governor "set aside" \$404.3 million for subsequent appropriation in satisfaction of Proposition 98 minimum funding requirements. Figure 4 summarizes the purposes for which the Governor proposes this funding be used.

level requirement, or test two, as this calculation provides the higher level of funding.

Privately-Operated Child Care

The 1990-91 Governor's Budget, as introduced in January, used a broad definition of appropriations counting towards meeting Proposition 98 minimum funding requirements. This definition, consistent with (then) current policy, included both public and private child care. In June, a Superior Court decision in *CTA v. Huff* directed the state to use a narrower definition which excludes private child care from the guarantee. Consequently, in his veto

message accompanying the 1990 Budget Act, the Governor directed that—consistent with the court decision in *CTA v. Huff*—\$137 million in funding for privately-operated child care programs not count towards meeting Proposition 98 requirements. This change is significant because it (combined with other adjustments) results in a corresponding reduction of \$170 million to the Proposition 98 minimum funding guarantee and "frees up" \$33 million for other non-Proposition 98 programs. (The funds are "freed up" because the Proposition 98 guarantee has grown at a faster rate since 1986-87 than has funding for child care.)