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# Overview of Recent School Finance and Flexibility Actions

LEGISLATIVE ANALYST'S OFFICE

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Assembly Budget Subcommittee No. 2 on  
Education Finance

Hon. Wilmer Amina Carter, Chair





## Summary of Recent Budget Reductions

<b>K-12 “Programmatic” Funding<sup>a</sup></b>				
	<b>2007-08 Final</b>	<b>2008-09 Revised</b>	<b>2009-10 Revised</b>	<b>2010-11 Proposed</b>
<b>Programmatic Funding (In Millions)</b>				
K-12 ongoing funding <sup>b</sup>	\$48,883	\$43,215	\$40,765	\$42,708
Payment deferrals	—	2,904	1,679	—
One-time fund swaps	862	1,766	—	64
Freed-up restricted reserves <sup>c</sup>	—	1,100	1,100	—
American Recovery and Reinvestment Act (ARRA) funds <sup>c</sup>	—	1,192	3,575	1,192
<b>Totals</b>	<b>\$49,745</b>	<b>\$50,176</b>	<b>\$47,118</b>	<b>\$43,964</b>
<b>Per-Pupil Programmatic Funding</b>				
K-12 attendance	5,947,758	5,957,111	5,921,510	5,927,728
<b>K-12 per-pupil funding (In Dollars)</b>	<b>\$8,364</b>	<b>\$8,423</b>	<b>\$7,957</b>	<b>\$7,417</b>
<b>Percent Change From 2007-08</b>	<b>—</b>	<b>0.7%</b>	<b>-4.9%</b>	<b>-11.3%</b>

<sup>a</sup> Excludes non-ARRA federal funds, lottery, and various other local funding sources.  
<sup>b</sup> Includes ongoing Proposition 98 funding, certain categorical funding adjustments, and funding for the Quality Education Investment Act.  
<sup>c</sup> LAO estimates of ARRA and restricted reserve funds spent in each year.

- Under the Governor’s proposal, K-12 per-pupil programmatic funding in 2010-11 would be more than 10 percent lower than the 2007-08 level.
- The large drop in 2010-11 is mostly due to the heavy reliance on one-time solutions in 2008-09 and 2009-10.
- These per-pupil rates are based on estimates of statewide trends. Actual rates will vary by district based on amount of funding received and when one-time funding was spent.



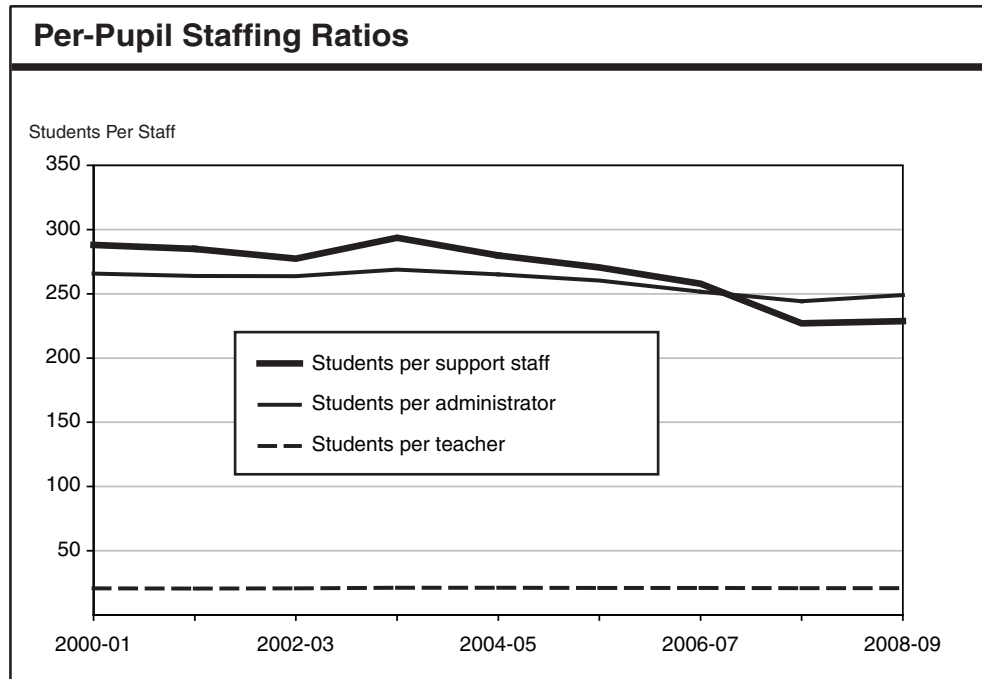
## Payment Deferrals Leading to Increase in School District Borrowing

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- State deferred several K-12 payments to balance 2008-09 and 2009-10 budgets. (Deferrals delay payments until the subsequent fiscal year, thereby allowing districts to continue their current spending levels while the state achieved temporary savings.)
  - In 2008-09, the state deferred \$2.9 billion in K-12 education payments to 2009-10.
  - In 2009-10, the state deferred an additional \$1.7 billion in K-12 education payments to 2010-11.
  - School districts will receive 12 percent of funding for 2009-10 costs in 2010-11.
  
- School districts increased short-term borrowing in response to additional deferrals.
  - According to data from the State Treasurer's Office, the number of school districts issuing short-term debt increased from 66 in 2008-09 to 217 in 2009-10. Total debt issued increased from \$1.3 billion to \$2 billion.
  - From 2008-09 to 2009-10, the amount of funds borrowed by the short-term pool operated by the California School Boards Association increased from \$463 million to \$731 million.
  
- Districts' cash needs in 2008-09 and 2009-10 were addressed in part by the \$6 billion in federal stimulus funding provided to school districts.



## No Major Changes in School Staffing Levels



- Statewide, the ratio of pupils to teachers has remained relatively constant at about 21 to 1 for the past several years. (Individual classroom ratios tend to be higher, as the overall pupil-to-teacher ratio includes resource teachers who provide specialized services.)
- The ratio of pupils to non-teaching staff (administrators and student support providers) declined from 2003-04 through 2007-08.
- After several years of these declines, the ratio of pupils to non-teaching staff remained fairly flat between the 2007-08 and 2008-09 school years. (Data are not yet available for 2009-10.)



## Class Sizes Increasing

<b>School Districts Report Increasing Class Sizes</b>			
<b>Grade</b>	<b>Number of Students</b>		
	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11 (Projected)</b>
Kindergarten	19.7	21.4	22.6
Grade 1	19.3	20.8	22.6
Grade 2	19.3	21.1	22.5
Grade 3	20.0	21.8	23.0
Grade 4	27.3	27.6	27.9
Grade 5	27.4	27.9	28.2
Grade 6	27.7	28.0	28.5
Grade 7	27.6	27.9	28.3
Grade 8	27.6	28.2	28.4
Grade 9	27.0	29.1	29.8
Grade 10	29.2	30.0	30.8
Grade 11	29.2	29.8	33.3
Grade 12	28.9	29.9	30.5

Source: School Services of California survey, January 2010.

***Districts Report Moderate Increases in K-3 Class Sizes in 2009-10, Anticipate Additional Increases in 2010-11.*** Based on survey responses from one-third of districts, average K-3 classes increased from about 19 students in 2008-09 to about 21 students in 2009-10, and are projected to increase to about 22 students in 2010-11.

***Districts Also Report Increases in Grade 4-12 Class Sizes.*** Based on survey responses from one-third of districts, average class size increased in every grade from 2008-09 to 2009-10, with further increases projected for 2010-11.



## Teacher Layoffs on the Rise

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- ☑ Current law requires school districts to notify teachers of possible layoff by March and make final termination decisions by May.
- ☑ Both the number of layoff notices and the number of teachers actually terminated increased between 2008-09 and 2009-10.
  - **2008-09:** Roughly 10,500 teachers (3.4 percent) received layoff notices in March. Of those, 4,500 (1.5 percent) were terminated in May.
  - **2009-10:** Roughly 29,500 teachers (9.8 percent) received layoff notices in March. Of those, 16,000 (5.3 percent) were terminated in May.
  - Some terminated teachers may have been hired back prior to the start of the school year.
- ☑ According to the California Teachers Association, more than 25,000 teachers (8.7 percent) have received layoff notices for the 2010-11 school year.



## 2009-10 Budget Package Offered Districts Greater Flexibility

- State made several significant policy changes to loosen restrictions and give school districts more discretion in making spending decisions.
- Most of these flexibility provisions are in effect from 2008-09 through 2012-13.

<b>K-12 Flexibility Provisions Included in 2008-09 and 2009-10 Budgets</b>	
<i>2008-09 to 2012-13 (Unless Otherwise Noted)</i>	
Provision	Description
<b>Flexibility in Use of Categorical Program Funding</b>	Creates categorical “flex item” whereby districts can use funds from roughly 40 programs for any purpose.
<b>Lesser Penalties for Exceeding K-3 Class Size Reduction Program Guidelines</b>	Allows districts to exceed 20 students per K-3 classroom without losing as much funding as under previous penalties.
<b>Reduced Requirement for Routine Maintenance Deposit</b>	Lowers the percentage districts must set aside for maintenance of school buildings from 3 percent to 1 percent of expenditures. Districts with facilities in good repair are exempt from any set-aside requirement.
<b>Elimination of Local Spending Requirement to Qualify for State Deferred Maintenance Match</b>	Eliminates requirement that districts spend their own funds on deferred maintenance in order to qualify for state dollars.
<b>Access to Categorical Fund Balances</b>	Allows districts to spend leftover categorical funding from 2007-08 or prior years for any purpose (except in seven programs). (2008-09 and 2009-10 only.)
<b>Postponement of Instructional Material Purchase Timeline</b>	Postpones requirement that districts purchase new instructional material packages.
<b>Reduced Instructional Time Requirements</b>	Provides school districts option to reduce length of school year by as many as five days.
<b>Sale of Surplus Property</b>	Allows districts to use the proceeds of surplus property sales for any purpose if property was purchased entirely with local funds.

- The federal American Recovery and Reinvestment Act also allowed school districts to reduce their local contributions to special education by up to half of any increase in federal Individuals with Disabilities Act (IDEA) funding.



## Initial Data Show Districts Are Beginning to Take Advantage of Flexibility

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- ☑ ***Flexibility Is Facilitating Local Planning Processes.*** In our statewide survey of school districts, over two-thirds of respondents reported that categorical flexibility made it somewhat or much easier to craft and implement their district's strategic plan.
- ☑ ***Facilitating Budget Decisions.*** A majority of respondents also indicated categorical flexibility made it easier to: develop and balance their budgets, focus on local priorities, make hiring and layoff decisions, and fund programs for at-risk students.
- ☑ ***Reducing Local Special Education Expenditures.*** About 60 percent of our survey respondents reduced their local contributions to special education in response to increased federal IDEA funds.
- ☑ ***Accessing Prior-Year Categorical Balances.*** By close of 2008-09, districts had spent almost all freed-up categorical funds remaining from 2007-08.
- ☑ ***Districts Reprioritizing Categorical Funds.*** Our survey data suggest districts are beginning to shift funding away from most of the "flexed" categorical programs.





## Districts Reprioritizing “Flexed” Categorical Funds

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***Survey Respondents Reported Making “Major” Changes to Some Flexed Programs, Including:***

- Instructional Materials and Deferred Maintenance (about 50 percent of respondents).
- Professional Development Block Grant and Supplemental Instruction (about 40 percent of respondents).
- School and Library Improvement Block Grant (about 35 percent of respondents).

***A Few Flexed Programs Less Affected.*** Roughly half of respondents reported making no programmatic changes to the following:

- California School Age Families Education
- Community Day Schools
- Intern Program/Alternative Certification

***Funds Being Redirected to Classroom Instruction.*** While a majority of districts reported shifting monies *away* from flexed categorical programs, very few districts reported shifting monies *into* any categorical programs. This suggests they are instead shifting funds to support their core educational program.



## Governor Has Several Additional Flexibility Proposals

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- Facilitate Contracting Out.** Proposes to ease restrictions on contracting out for noninstructional services (linked to \$300 million revenue limit reduction).
- Modify Substitute Teacher Policies.** Proposes to remove requirements that districts give laid-off teachers priority for substitute positions and pay them at pre-layoff rates.
- Streamline Teacher Personnel Processes.** Proposes a number of changes to teacher layoff, tenure, and dismissal processes. (The administration has indicated it is now proposing these changes through policy legislation rather than in a budget trailer bill.)



## LAO Recommends Providing Districts More Flexibility

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- Include Additional Programs in K-12 “Flex Item”**
  - K-3 Class Size Reduction
  - Home-to-School Transportation
  - After School Education and Safety (requires voter approval)
  
- Consolidate Funding From Similar Programs**
  - Shift English Learner Acquisition Program into Economic Impact Aid.
  - Combine funding from five career technical education programs. (Currently in flex item: Regional Occupational Centers and Programs and Specialized Secondary Programs. Currently stand-alone programs: Partnership Academies, Apprenticeship, and Agricultural Vocational Education.)
  
- Relax or Remove Local Requirements**
  - Ease restrictions on contracting out for noninstructional services (approve Governor’s policy proposal).
  - Remove requirements that districts give laid off teachers higher priority and pay for substitute teaching positions (approve Governor’s policy proposal).
  - Allow Quality Education Investment Act (QEIA) schools qualifying for federal school improvement funding to be subject only to federal requirements (that is, free from state QEIA requirements).
  - Eliminate many K-12 education mandates.