

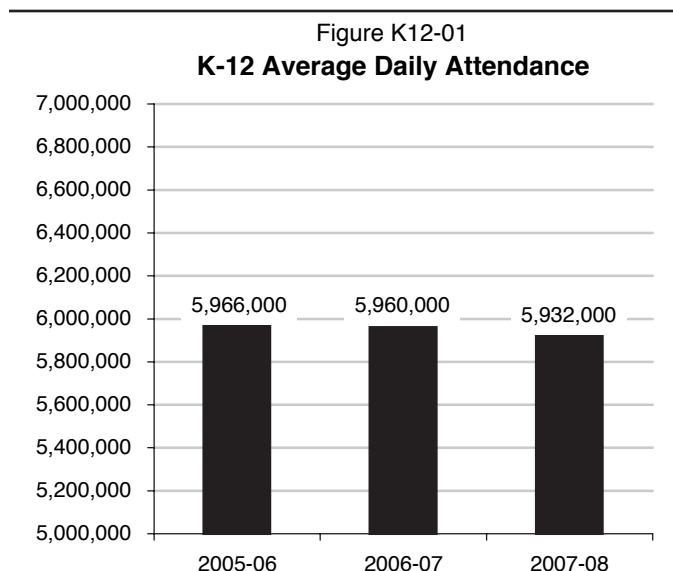
K THRU 12 EDUCATION

Kindergarten through 12th grade (K-12) education programs provide a variety of academic and support services primarily to pupils between the ages of three and 19. The programs equip California's young people with the skills to become successful adults, achieve career goals, obtain gainful employment and pursue higher education. Services include standards-based academic instruction, special education, career technical education programs, child care and development, teacher recruitment and development and adult education and remedial instruction, among others.

TOTAL K-12 FUNDING

The 2007-08 Budget Act includes \$66.8 billion (\$41.4 billion General Fund and \$25.4 billion other funds) for K-12 education programs in 2007-08. This reflects an increase of \$3.5 billion (\$1.6 billion General Fund and \$1.9 billion other funds) over the 2006-07 revised budget. More notable funding changes are further described below.

As a result of a steady decline in birth rates throughout the 1990s, attendance growth in public schools is also declining (see Figure K12-01). For the current year, K-12 average daily attendance (ADA) is estimated to be 5,960,000, a decrease of 6,000 or 0.09 percent from the 2005-06 fiscal year. For the budget year, the Administration estimates K-12 ADA

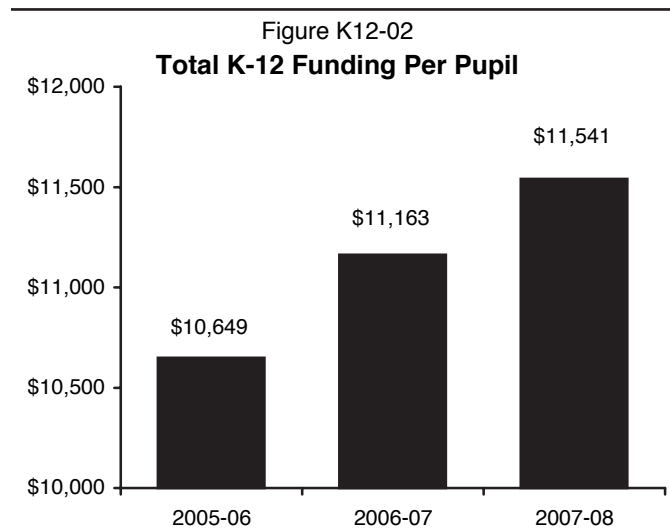


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will decrease at a greater rate. The ADA for 2007-08 is projected to decline by 28,000 ADA or 0.48 percent, to 5,932,000.

PER-PUPIL SPENDING

Total per-pupil expenditures from all sources are projected to be \$11,163 in 2006-07 and \$11,541 in 2007-08, including funds provided for prior year settle-up obligations (see Figure K12-02). This is an indicator of the relative level of spending in California for support of K-12 education programs and not the actual level of funding allocated to each school for a pupil.



MAJOR WORKLOAD ADJUSTMENTS

Major workload adjustments for 2007-08 include the following:

- **Cost-of-Living Adjustment (COLA) Increases**—The Budget includes a \$2.1 billion increase to fund the 4.53-percent statutory COLA: \$1.6 billion for revenue limits; \$150.9 million for special education; \$69.7 million for child care programs; \$58.6 million for class size reduction; and \$303 million for various other categorical programs.
- **ADA**—The Budget includes an \$11 million net reduction in 2007-08 to reflect the decline in ADA. The majority of this amount consists of a \$42.1 million reduction in school district and county office of education revenue limit apportionments (general purpose funding for schools). Due to the decrease in the attendance for 2006-07, there is an \$89 million decrease in revenue limit apportionments for that year.

- Special Education—The Budget provides a Proposition 98 General Fund increase of \$93.4 million and a Federal Fund increase of \$10.9 million. These changes include adjustments for revised figures for local property tax and ADA growth.

The major policy adjustments included in the Budget are discussed in the Program Adjustments section below.

PROPOSITION 98 GUARANTEE

A voter-approved constitutional amendment, Proposition 98, guarantees minimum funding levels for K-12 schools and community colleges. The guarantee, which went into effect in the 1988-89 fiscal year, determines funding levels according to a multitude of factors, including the level of funding in 1986-87, General Fund revenues, per capita personal income, and school attendance growth or decline.

Proposition 98 originally mandated funding at the greater of two calculations or Tests (Test 1 or Test 2). In 1990, Proposition 111 was adopted to allow for a third funding test in low revenue growth years. As a result, three calculations or (“Tests”) determine funding for school districts and community colleges (K-14). The calculation or Test that is used depends on how the economy and General Fund revenues grow from year to year (see Figure K12-03).

The Legislature, noting concerns about the uncertainty of the economy and in particular General Fund revenues, chose to fund the Proposition 98 Guarantee for the 2006-07 fiscal year at a minimum level of \$55 billion, which is \$411 million lower than the amount proposed in the May Revision. The final Budget Act reflects the budget year impact on the Proposition 98

Figure K12-03

Propositon 98 Test Calculations

Test 1—Percent of General Fund Revenues

Test 1 is based on a percentage or share of General Fund tax revenues. Historically, school districts and community colleges (K-14) received approximately 40 percent in the 1986-87 fiscal year. As a result of the recent shifts in property taxes between K-14 schools and cities, counties, and special districts, the current rate is approximately 41 percent.

Test 2—Adjustments Based on Statewide Income

Test 2 is operative in years with normal to strong General Fund revenue growth. This calculation requires that school districts and community colleges receive at least the same amount of combined state aid and local tax dollars as they received in the prior year; adjusted for enrollment growth and growth in per capita personal income.

Test 3—Adjustment Based on Available Revenues

Test 3 is utilized in low revenue years when General Fund revenues decline or grow slowly. During such years, the funding guarantee is adjusted according to available resources. A low revenue year is defined as one in which General Fund revenue growth per capita lags behind per capita personal income growth more than one-half percentage point. Test 3 was designed so that education is treated no worse in low revenue years than other segments of the state budget.

In years following a Test 3 funding level, the state is required to provide funding to restore what was not allocated the previous year. This is often referred to as a maintenance factor.

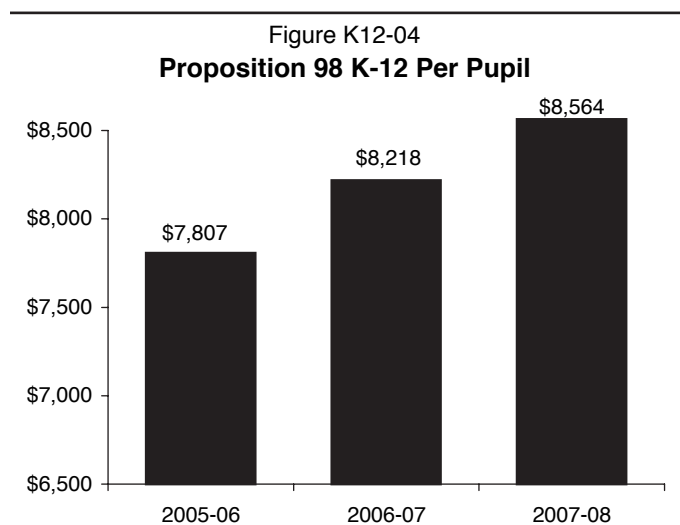
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guarantee as a result of the revised current year minimum Proposition 98 guarantee level. This adjustment results in General Fund savings of \$427 million.

Despite the adjustment in the Proposition 98 guarantee, K-14 education spending remains at \$57.6 billion from a combination of one-time and ongoing funding. To accomplish this, the Budget Act replaces \$429 million in ongoing Proposition 98 General Fund for K-12 Home-to-School Transportation and K-12 School Deferred Maintenance with funding from the Public Transportation Account (PTA) and the Proposition 98 Reversion Account. Specifically, the Budget provides for the following:

- A \$349 million reduction in the Proposition 98 appropriation for K-12 Home-to-School Transportation;
- An \$115.5 million reduction in the Proposition 98 appropriation for the State School Deferred Maintenance Fund;
- A shift of \$250 million from the School Facilities Emergency Repair Account back to the Proposition 98 Reversion Account;
- An appropriation of \$99 million from the PTA for the K-12 Home-to-School Transportation Program;
- An appropriation of \$250 million from the Proposition 98 Reversion Account for the K-12 Home-to-School Transportation Program; and
- An appropriation of \$115.5 million from the Proposition 98 Reversion Account for the State School Deferred Maintenance Fund.

Proposition 98 funding for 2007-08 is proposed at \$57.1 billion, a 3.9-percent increase over the 2006-07 funding level. The General Fund comprises \$41.5 billion of total proposed Proposition 98 funding. The totals include funding for K-12, community colleges and other state agencies



that serve students. K-12 Proposition 98 per-pupil expenditures are \$8,564 in 2007-08 (see Figure K12-04).

For fiscal year 2005-06, Proposition 98 funding was \$53.3 billion (this number reflects the guarantee level as recalculated pursuant to the Proposition 98 Settlement Agreement), of which the General Fund share was \$39.7 billion. Local property taxes covered the balance. The 2006-07 Proposition 98 funding is estimated to be \$55 billion, a 3.1-percent increase over 2005-06. The General Fund share in 2006-07 is \$40.8 billion. These funding levels reflect the higher attendance estimates and the cost of apportionments for that year.

PROGRAM ADJUSTMENTS

SECOND GRADE TESTING

The Budget provides \$2.1 million in Proposition 98 General Fund to continue second grade testing under the Standardized Testing and Reporting (STAR) program. Without second grade testing, the first information about student performance related to state-aligned standards would not be available until the beginning of fourth grade. Continuation of second grade testing will continue to provide valuable information on whether or not a student has mastered basic reading skills. It will also continue to provide teachers and school administrators a critical tool for early identification of students who need additional support.

MAKING SCHOOL MEALS HEALTHY

The Budget provides \$24.9 million in Proposition 98 General Fund for a 4.7-cent increase to the school meal reimbursement rate if legislation is enacted that improves the nutritional quality of meals served to California's students. Specifically, the Administration supports legislation that would prohibit food items that contain artificial trans fat and foods fried in unhealthy oils from being served in the Child Nutrition Program. It is widely accepted that trans fats are unhealthy and contribute to the current childhood obesity epidemic and that foods fried in unhealthy oils have a negative effect on cardiovascular health. This funding increase will allow school districts to serve healthier meals to California's students and illustrates the Administration's continued commitment to improving student health.

CAREER TECHNICAL EDUCATION

As discussed in greater detail in the higher education section, the Budget continues substantial investments in career technical education (CTE), consistent with the Governor's initiative begun in 2005-06. In total, the Budget provides \$52 million (\$20 million in ongoing Proposition 98 General Fund and \$32 million pursuant to the CTA vs. Schwarzenegger settlement appropriated by Chapter 751, Statutes of 2006) to continue systematic

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investments aimed at restoring and reinvigorating high school vocational programs through curriculum enhancements, as well as course sequencing and articulation between K-12 tech-prep programs and community college economic development programs.

A specific 2007-08 expenditure plan is currently being finalized by the Chancellor's Office in conjunction with the State Department of Education, and is anticipated to include new grant opportunities in a variety of critical areas that will better prepare students for employment in high-demand technical careers and further skill development in postsecondary education. The Administration has also sponsored legislation to streamline the credentialing process for CTE instructors that should assist in the current teacher shortage.

DEFERRED MAINTENANCE AND EMERGENCY REPAIRS

The Budget provides a total of \$277.4 million to fully fund the Deferred Maintenance program. For the 2007-08 fiscal year, this program will be funded with \$161.9 million in ongoing Proposition 98 General Fund and \$115.5 million in one-time Proposition 98 Reversion Account funding.

The Budget also provides another \$100 million transfer from the Reversion Account to the Emergency Repair Account in satisfaction of the Williams settlement agreement. This reflects the third increment of funding for the program bringing the total transfers to \$438 million. However, the unspent balance in this account is currently \$300 million. Therefore, in order to maximize the available revenue for other school spending, the budget transfers \$250 million of the existing balance back to the Reversion Account on a temporary basis, which will still leave \$150 million available in the near term. Nevertheless, the Budget's control provisions insure that funds from the Reversion Account will be transferred back when needed in the event that actual demand on the Emergency Repair Account exceeds budget year expectations.

CALIFORNIA PUPIL ACHIEVEMENT DATA

The Budget includes \$3.9 million (from all funds) to support the development of the California Longitudinal Pupil Achievement Data System. The state is currently reviewing bids for implementation, and plans on initiating development in 2007-08. The funding complements \$31 million provided by the state in 2006-07 over three years to support all districts in preparing for the transition to the longitudinal system—\$1.5 million for the California School Information Services for technical support, and \$29.5 million in local preparation grants.

CHILD CARE

The Budget Act appropriates more than \$3.3 billion for K-12 child care programs, including funding for general child care, CalWORKs child care, preschool, and before and after

school programs. Allocated through all the K-12 child care programs, these funds will provide almost 950,000 child care slots.

The Budget also continues \$50 million in Proposition 98 funding for the first phase of a three-year initiative to expand preschool opportunities for four-year olds residing in attendance areas of schools ranked in the lowest three deciles of the 2005 Academic Performance Index, pursuant to the provisions of the Pre-Kindergarten Family Literacy program.

In addition, the Budget Act appropriates \$6.8 million to provide for an increase in the income eligibility threshold for subsidized child care. The income eligibility threshold will be raised to \$50,250 for a family of four to reflect an increase in the 2007-08 State Median Income.

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