

AN OVERVIEW OF K-12 SCHOOL FINANCE IN CALIFORNIA

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LEGISLATIVE ANALYST

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Statement to the Commission
on California State Government
Organization and Economy
February 24, 1983

MR. CHAIRMAN AND MEMBERS OF THE COMMISSION:

You have requested that we present an overview of California school finance, including significant changes since Proposition 13 and the outlook for fiscal year 1983-84. The material which follows is organized in the order of (1) total education funding, (2) general aid funding, (3) categorical aid funding, and (4) school facilities funding.

CALIFORNIA'S ALLOCATION SYSTEM

General purpose aid is allocated to school districts through a revenue limit system. This system provides to each district a combination of state General Fund money and local property tax revenues. These funds are intended to cover the general operating expenses of the district.

The primary objective of this system is to allocate funds to school districts in such a way as to comply with the Supreme Court's directive in the Serrano case: that expenditure differences stemming from district wealth be reduced. The system provides for differential cost-of-living adjustments (COLA) to each district's per-pupil revenue limit, depending upon the relative level of the district's revenue limit in the previous year. Districts whose revenue limits are above the statewide average receive a smaller COLA than those below the statewide average. Over time, all school districts are brought closer to the statewide average.

The revenue limit system, however, also recognizes differences in the costs incurred by different types of districts. Because a high school district is more costly to operate than an elementary district serving the same number of students, the state's revenue limit system provides additional funds to the former. Similarly, small school districts are usually more costly to operate than large school districts, because they are unable to exploit fully the economies of scale. Again, the state's revenue limits reflect this difference.

California's school finance system also provides for students with unique needs. Additional funds for these students are distributed not through the revenue limit, but rather through categorical programs. For example, handicapped students receive services through the Master Plan for Special Education. This program has a separate funding system that is based upon historical expenditure rates and current services level. Students who require additional language instruction receive services through the state's bilingual program which obtains some of its funding through the Economic Impact Aid program.

While California does not have a direct fiscal mechanism designed to encourage particular educational outcomes, there are programs which are designed to improve skills in certain subject areas. For example, the state provides funds for reading specialists under the Miller-Unruh reading programs, and funds are provided to develop the vocational skills of students through Regional Occupational Programs and Centers.

TOTAL K-12 REVENUES, 1974-75 to 1983-84

Table 1 and Chart 1 display total funding for K-12 by source, for the 10 years 1974-75 to 1983-84. The principal funding sources identified in the table are as follows:

- Local Property Tax Levies--revenues raised by the tax on real property.
- State Property Tax Subventions--funds provided by the state to school districts to replace property tax revenues foregone due to tax exemptions granted by the state, such as the homeowners exemption and the business inventory exemption. (In Chart 1, state property tax subventions are included with local property tax levies.)
- State Aid--K-12 revenues provided from the General Fund and state special funds.
- Federal Aid--all K-12 education funds received from the federal government.
- Miscellaneous Revenues--combined state/federal grants, sale of property and supplies, cafeteria revenues interest income, and other revenues.

Table 1
K-12 Total Revenues
(in millions)

Year	Local Property Tax Levies ^a	State Property Tax Subventions	State Aid	Federal Aid	Miscellaneous ^b	Total Funding	ADA	Total Funding		1972-73 Dollars ^c	
								Per ADA	Percent Change	Per ADA	Percent Change
1974-75	\$3,348.2	\$430.8	\$2,356.7	\$550.4	\$524.4	\$7,210.5	4,714,154	\$1,530	8.8%	\$1,290	-0.6%
1975-76	3,795.2	485.6	2,594.4	591.6	391.1	7,587.9	4,760,966	1,650	7.8	1,287	-0.2
1976-77	4,256.1	494.0	2,764.6	644.4	495.6	8,654.7	4,718,800	1,834	11.2	1,342	4.3
1977-78	4,728.6	516.0	2,894.9	891.5	485.6	9,516.6	4,652,486	2,045	11.5	1,397	4.1
1978-79	2,337.1	241.5	5,333.4	962.3	551.3	9,425.6	4,271,181	2,207	7.9	1,398	0.1
1979-80	2,000.0	180.0	6,998.5	1,100.4	702.7	10,981.6	4,206,150	2,611	18.3	1,525	9.1
1980-81	2,195.5	257.4	7,348.9	1,064.7	866.3	11,732.8	4,214,089	2,784	6.6	1,497	-1.8
1981-82 (estimated)	2,814.6 ^d	245.1	7,779.5	882.4	974.9	12,696.5	4,213,707	3,013	8.2	1,504	0.5
1982-83 (estimated)	2,655.0	245.2	8,214.4	855.7	1,104.2	13,074.5	4,204,000	3,110	3.2	1,460	-2.9
1983-84 (budgeted)	2,839.0	245.9	8,354.6	839.2	1,253.3	13,532.0	4,224,000	3,204	3.0	1,411	-3.4
<u>Cumulative Change</u>											
Amount	-\$509.2	-\$184.9	\$5,997.9	\$288.8	\$728.9	\$6,321.5	-490,154	\$1,674	--	\$121	--
Percent	-15.2%	-42.9%	254.5%	52.5%	139.0%	87.7%	-10.4%	109.4%	--	9.4%	--

Source: Financial Transactions of School Districts

a. Includes local debt.

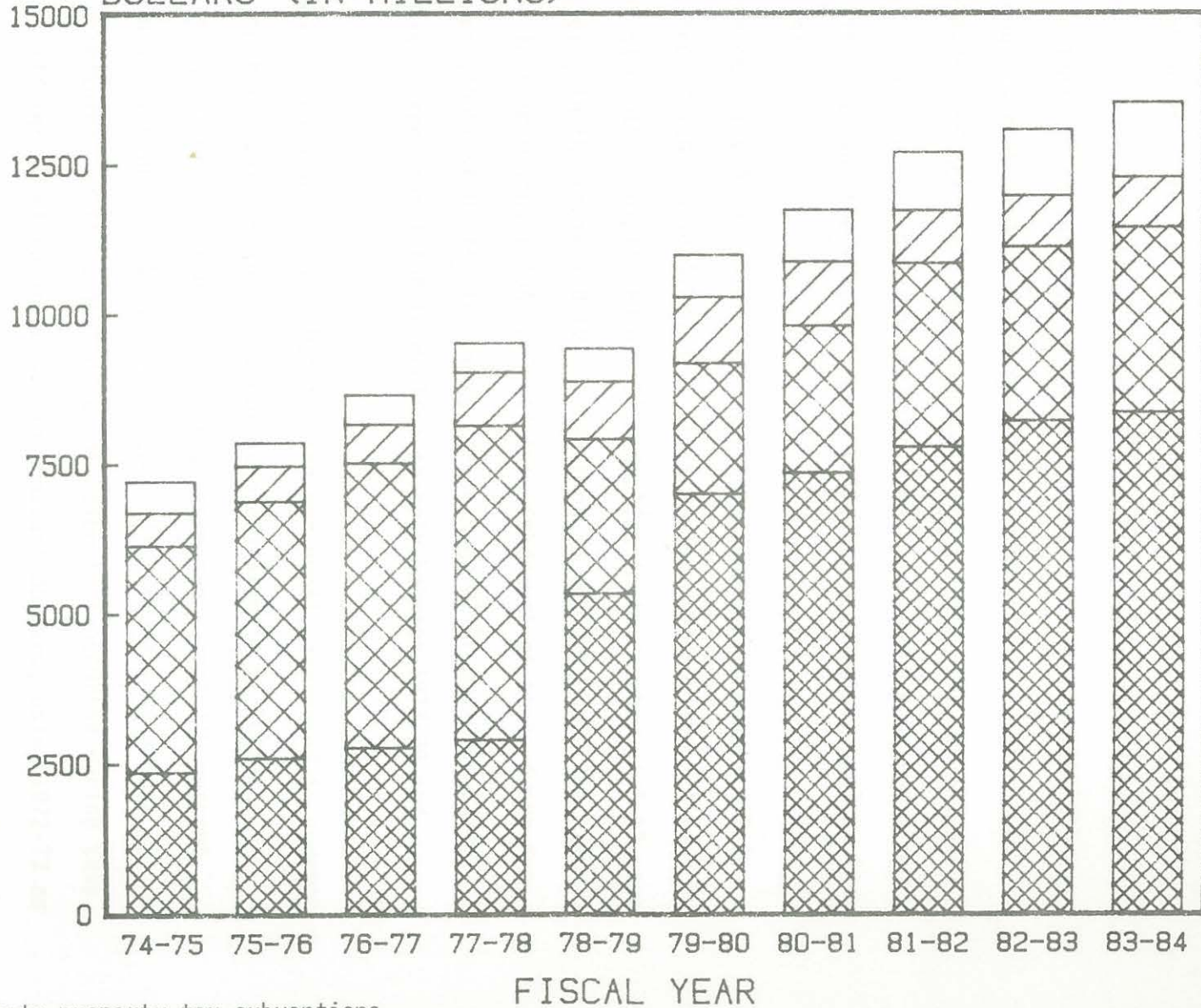
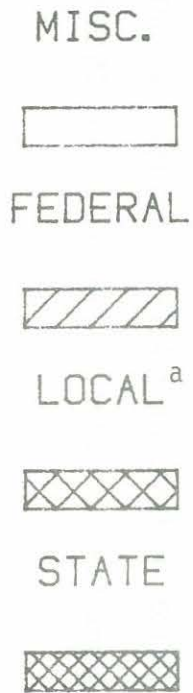
b. Includes combined state/federal grants, county income, cafeteria fees, and other miscellaneous revenues.

c. As adjusted by the GNP deflator for state/local government.

d. The growth in property tax levies is primarily due to the one-time allocation of \$363.8 million in 1978-79 unsecured property taxes.

K-12 EDUCATION REVENUES BY FUNDING SOURCE

DOLLARS (IN MILLIONS)



a. Includes state property tax subventions.

As shown in Table 1, total funding for K-12 education in California is proposed to increase from \$7,210.5 million in 1974-75 to \$13,532.0 million in 1983-84, an increase of \$6,321.5 million or 88 percent. Of the five revenue sources, aid from the state has increased most significantly since 1974-75 (255 percent), while support from the property tax and state property tax subventions has actually declined, due to the combined effects of Proposition 13 and the state's fiscal relief program established by AB 8 (Ch 282/79).

Average Daily Attendance (ADA) over this same period dropped 10.4 percent, from 4,714,154 to 4,224,000. This decline of 490,154 in the number of students is explained by (1) a decline in the number of 5-17 year olds residing in the state and (2) a reduction in summer school ADA. The reduction in summer school ADA reflects the withdrawal of state funds for most summer school students, following the passage of Proposition 13 in 1978. This caused total ADA to decline sharply between 1977-78 and 1978-79.

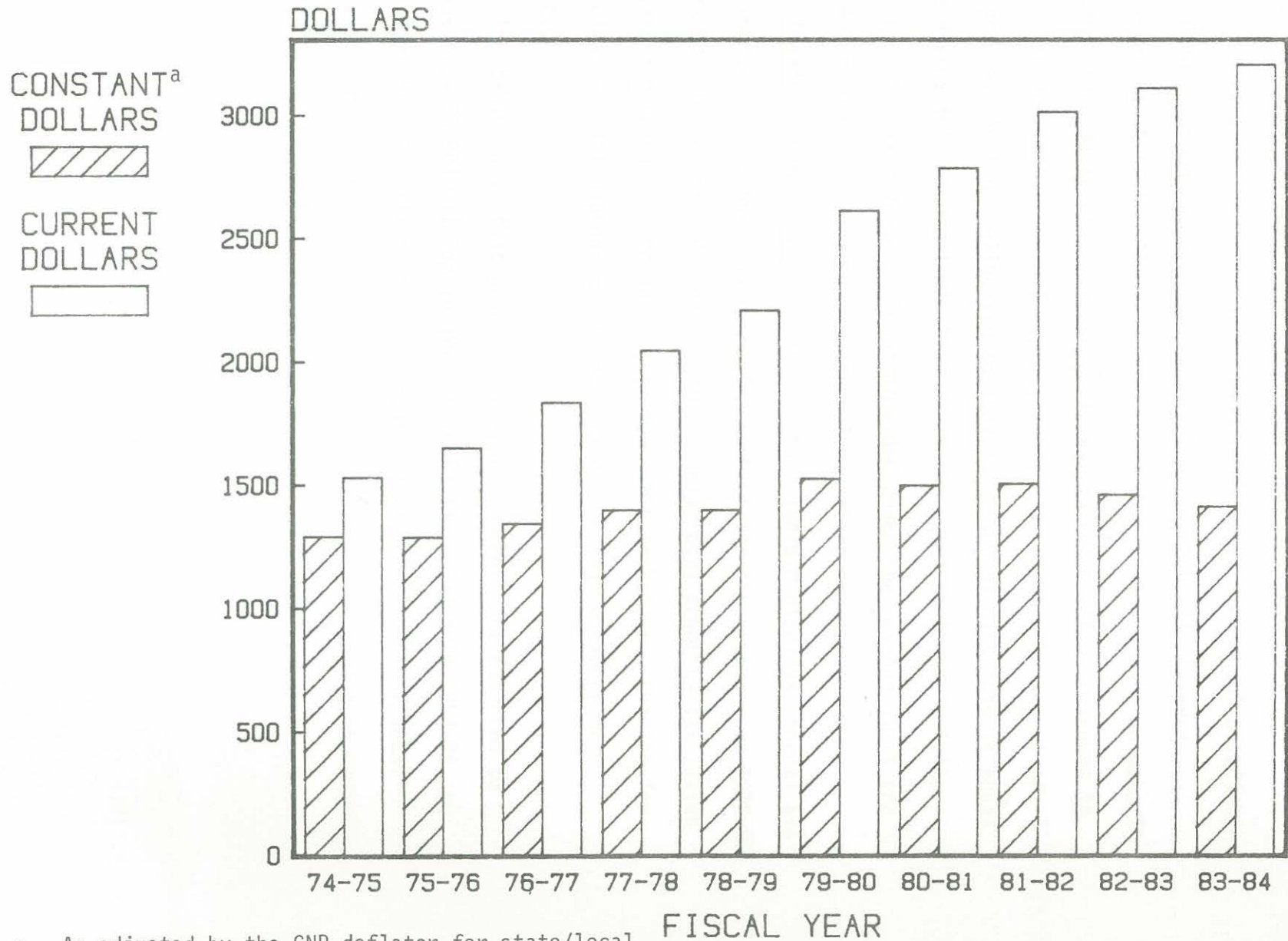
Table 1 and Chart 2 show that funding per pupil, expressed in current dollars (that is, dollars that have not been adjusted to reflect the effects of inflation on purchasing power), increased almost 110 percent since 1974-75, rising from \$1,530 to \$3,204. If, however, we adjust per pupil expenditures for the significant inflation that occurred during this period, a different picture emerges. In constant dollars, using 1972-73 as the base year, per pupil funding was \$1,290 in 1974-75. For 1983-84, per pupil funding is proposed at \$1,411 in constant dollars. This is an increase of \$121 per pupil, or 9.4 percent. Put another way, assuming

enactment of the Governor's Budget, the purchasing power of K-12 funding per pupil in 1983-84 will be a little less than 10 percent greater than what it was in 1974-75. Since 1979-80, however, funding on a constant dollar basis has actually declined from \$1,525 per pupil, a reduction of \$114, or 7.5 percent, per ADA.

K-12 EDUCATION PER PUPIL FUNDING
IN CONSTANT AND CURRENT DOLLARS



CHART 2
K-12 EDUCATION PER PUPIL FUNDING
IN CONSTANT AND CURRENT DOLLARS



a. As adjusted by the GNP deflator for state/local government, 1972-73 base year.

GENERAL AID APPORTIONMENTS, 1979-80 to 1983-84

As mentioned, general purpose aid is allocated to school districts in California through a revenue limit system. Revenue limits were established by SB 90 (Ch 1406/72) to control the rate of growth in school revenues. Each district's revenue limit was based on actual revenues in 1972-73. Under this system of financing K-12 education, the amount of state general aid funds allocated to individual school districts is equal to the districts' revenue limit less an amount equal to the district's local property tax revenues. Funds provided under the revenue limit are intended to cover each district's general operating expenses.

Trends in General Aid Apportionments. Table 2 displays general aid apprtionmennts to school districts for each of the five years from 1979-80 to 1983-84. ("General aid funds" includes only local property tax levies and state aid provided through the revenue limit mechanism. Funding for categorical education programs is not included in this category of support.)

The table shows that general aid apportionments are expected to increase from \$6,984 million in 1979-80 to \$8,116 million in 1983-84, an increase of \$1,132 million, or 16 percent. During this period, local revenue is expected to increase 51 percent, while state funding is expected to increase 5.1 percent.

Table 2

General Aid Apportionments
1979-80 to 1983-84
(in millions)

	Actual 1979-80	Actual 1980-81	Actual 1981-82	Estimated 1982-83	Proposed 1983-84	Four Year Change	
						Amount	Percent
Local	\$1,694.0	\$1,884.6	\$2,533.4	\$2,375.3	\$2,554.9	\$860.9	50.8%
State	<u>5,290.2</u>	<u>5,365.7</u>	<u>5,413.6</u>	<u>5,430.6</u>	<u>5,561.2</u>	<u>271.0</u>	<u>5.1</u>
Totals	\$6,984.2	\$7,250.3	\$7,947.0	\$7,805.9	\$8,116.1	\$1,131.9	16.2%
ADAb	4,054,720	4,043,035	4,044,831	4,046,800	4,066,800	12,080	0.3%
Revenues per ADA							
Current dollars	\$1,722	\$1,793	\$1,965	\$1,929	\$1,996	\$274	15.9%
Constant dollars ^a	\$1,722	\$1,651	\$1,679	\$1,551	\$1,504	-\$218	-12.6%

a. As adjusted by the GNP deflator for state/local government.

b. Excludes adult ADA.

Average Daily Attendance (ADA), excluding adult ADA, in the budget year is projected to be 4,066,800, 0.3 percent above the 1979-80 level. As the table shows, the greatest change is expected in 1983-84, when ADA is projected to grow by 20,000.

When allowances are made for changes in ADA, the level of general aid apportionments proposed for 1983-84 is still higher than it was in 1979-80.

If the actual and proposed apportionment levels are further adjusted to reflect the declines in purchasing power brought about by inflation, the apparent increase in general aid apportionments becomes a reduction. As Table 2 shows, per pupil funding adjusted for inflation, is projected to be \$218 lower in 1983-84 than it was in 1979-80, a decline of 13 percent. In fact, "real" general aid apportionments per ADA show a decline from the prior year in three of the four years covered by the table.

STATE-FUNDED CATEGORICAL EDUCATION PROGRAMS

Federal and state funds frequently are provided to local school districts under programs intended to achieve specific educational objectives or goals. Typically, these categorical programs are used to fund (1) the cost of specific activities, such as child nutrition or (2) the cost of specific academic services, such as resource specialists in special education.

The 1983-84 Governor's Budget proposes \$1.8 billion in state categorical aid to K-12 districts. This amount excludes (1) \$807 million in federal categorical assistance, which is allocated through the State Department of Education and (2) federal funds which are allocated directly to school districts.

Table 3 displays the funding history for state categorical local assistance during the 1979-80 through 1983-84 period. The table indicates that categorical assistance is expected to increase by approximately 31 percent during this period. The largest program expansions are in Special Education, Child Care, Staff Development, and State Mandates. Funding for these activities are proposed to increase by \$278.5 million, \$50.2 million, \$10.6 million, and \$11.0 million, respectively. Increases in the other categorical programs primarily reflect inflation adjustments, rather than program expansions. The only large reduction is in Child Nutrition, which is expected to decline by \$11.7 million during this five-year period.

STATE SCHOOL BUILDING AID

Overview. The State School Building Aid Program provides financial assistance to school districts for (1) acquisition and development of school sites, (2) construction or reconstruction of school buildings, (3)

Table 3

Five Year Funding for State Categorical Education Programs
Local Assistance
(in millions)

	Actual	Actual	Actual	Estimated	Budgeted	Five-Year Change	
	1979-80	1980-81	1981-82	1982-83	1983-84	Amount	Percent
Court and Federal Mandates	\$141.9	\$150.9	\$128.7	\$128.7	\$140.4	-\$1.5	-1.1%
School Improvement	135.3	152.4	162.7	162.7	162.7 ^a	27.4	20.2
Economic impact aid	142.6	161.5	171.7	171.7	171.7 ^a	29.1	20.4
Miller-Unruh	14.0	15.3	16.2	16.2	16.2 ^a	2.2	15.7
Native American education	0.3	0.3	0.3	0.3	0.3 ^a	--	--
Demonstration programs	3.0	3.2	3.6	3.6	3.6 ^a	0.6	20.0
American Indian centers	0.6	0.7	0.8	0.8	0.8	0.2	33.3
Adult education	141.7	148.9	158.4	148	149.3	7.6	5.4
Special education	449.1	539.5	712.5	727.2	727.6	278.5	62.0
Curriculum services	1.1	1.1	0.9	0.9	1.0 ^a	-.1	-9.1
Instructional materials	38.4	42.3	40.9	40.9	40.7 ^a	2.3	6.0
Staff development	2.1	3.1	2.5	12.7	12.7 ^a	10.6	504.8
Child care (with federal funds)	176.5	207.3	220.3	220.2	226.7	50.2	28.4
Child nutrition	38.6	33.8	25.4	26.1	26.9	-11.7	-30.3
Urban impact aid	62.1	63.4	58.0	67.1	69.1	7.0	11.3
State mandates	3.3	43.4	23.7	27.4	14.3 ^b	11.0	333.3
Gifted and talented	13.7	15.5	16.8	16.8	16.8 ^a	3.1	22.6
Driver training	17.2	18.3	17.3	17.8	17.8	0.6	3.5
Preschool	25.8	28.5	30.1	30.3	32.2	6.4	24.8
Totals	\$1,407.3	\$1,729.4	\$1,790.8	\$1,819.4	\$1,828.9	\$421.6	30.8%

a. Proposed for inclusion in the State Educational Block Grant.

b. Funds included in Item 9680-101-001.

purchase of school furniture and equipment for newly constructed buildings, (4) deferred maintenance, and (5) emergency portable classrooms.

Prior to the passage of Proposition 13 (Article XIII A of the State Constitution), local school districts financed the construction of elementary and secondary school facilities in one of two ways. They either issued school construction bonds or obtained a loan from the state under the State School Building Aid program.

The state raised the money loaned to applicant districts from the sale of general obligation bonds, and loans obtained by districts from the state were subject to prior voter approval for repayment from district property tax revenues.

Proposition 13 eliminated the ability of local school districts to levy additional special property tax rates to pay off new bonds or loans. Consequently, the State School Building Aid program was revised such that the state is no longer making construction loans to districts, but is funding the construction of new school facilities and renting them for a nominal fee to school districts under a long-term lease. This lease arrangement essentially represents a "quasi-grant" of construction funds to school districts because title to the facilities are transferred to the district no later than 40 years after the rental agreement has been executed, with the state only charging a nominal yearly rental rate equal to one dollar, plus any interest earned on state funds on deposit in the county school lease-purchase fund for the applicant school district.

Funding for this program is provided through three major statutory appropriations, which are available for expenditure irrespective of fiscal year. These are:

- School district "excess" repayments, i.e., the excess of school district principal and interest payments on State School Building Aid loans over the amount needed for the debt service of state school construction bonds. These are principally used to fund school district deferred maintenance projects.
- A yearly \$200.0 million allocation of tidelands oil revenues, through 1984-85, used principally for new school construction.
- Bond revenues authorized by Proposition 1 of 1982, which can be used for new school construction and rehabilitation of existing school facilities.

The program has the following three major elements:

- The construction quasi-grants which are made under the State School Building Lease-Purchase program.
- Deferred maintenance matching funds which are provided to school districts under the State School Deferred Maintenance program.
- The emergency portable classroom program which leases state acquired portable classrooms at up to \$2,000 per year to overcrowded school districts pending construction of permanent school facilities.

Table 4 shows the total revenues appropriated and available for state school building aid.

Table 4

Revenue Sources for School Construction and Deferred Maintenance^a

	Actual 1981-82	Estimated 1982-83	Proposed 1983-84
Revenues authorized from continuous appropriations:			
Excess school district loan repayment Ch 282/79 (AB 8)	\$65,635	\$83,892	\$81,289
Carryover of prior year General Fund appropriation Ch 288/80 (SB 1426)	208,000		
Tidelands oil appropriation--Ch 899/80 (AB 2973)	200,000	200,000	200,000
Carryover of prior year tidelands oil appropriation Ch 899/80 (AB 2973)	100,000		
Proposition 1 bond sales--Ch 410/82 (AB 3006)		125,000	200,000
Repayment of loan--Ch 998/81 (AB 114)		47,200	
Subtotals	\$573,635	\$456,092	\$481,289
Transfers and Loans:			
Transfer to General Fund per Section 19.91, Budget Act of 1981 ^b	-\$200,000		
Transfer to General Fund--Ch 207/82 (AB 884)	-200,000		
Loan to SAFCO and ERF Funds--Ch 998/81 (AB 114)	-47,200		
Nontransfer of school district excess repayments --Section 19.05, Budget Act of 1982		-\$18,892	
Nontransfer of tidelands oil reserves --Ch 327/82 (SB 1326)		-147,200 ^c	
Nontransfer of tidelands oil reserves			-\$200,000
Subtotals	-\$447,200	-\$166,092	-\$200,000
Net Cash Flow	\$126,435	\$290,000	\$281,289
<u>State School Deferred Maintenance Fund</u>	\$51,645	\$65,000	\$81,289
<u>State School Building Lease-Purchase Fund</u>	74,790	225,000	200,000

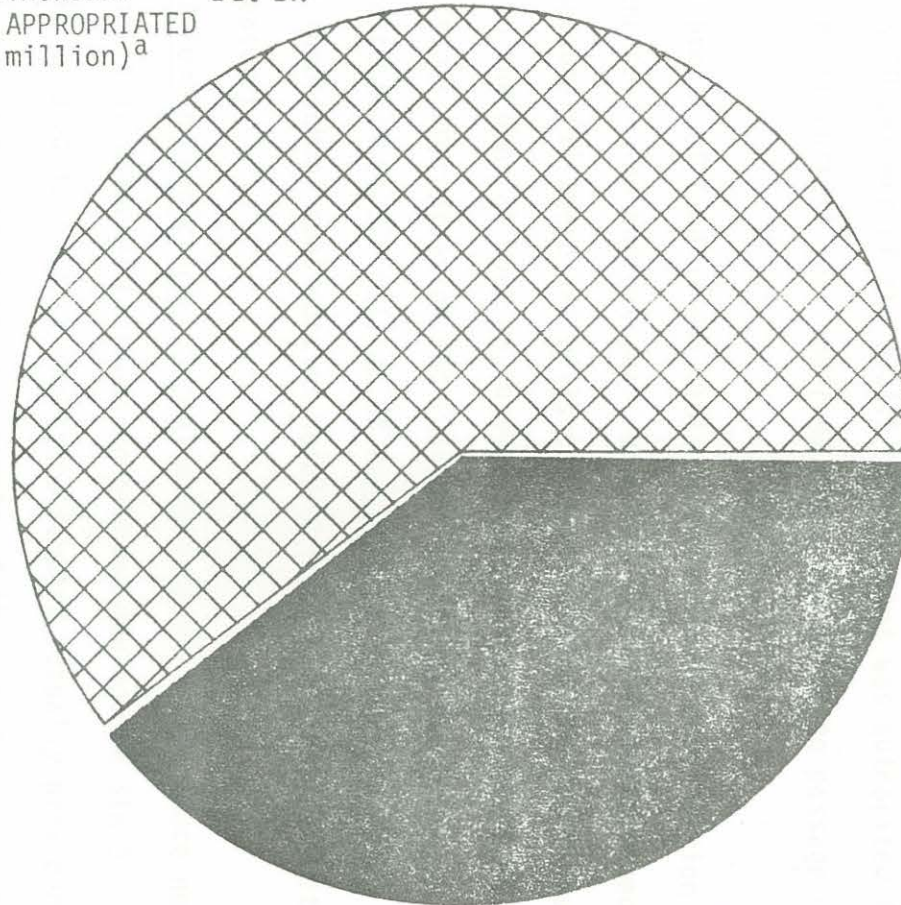
- a. This table illustrates only the Revenue Sources provided by current statutes, and the transfers and loans made from those revenues to arrive at the net appropriation for school construction and deferred maintenance in the particular fiscal year. This is not a fund condition statement, and accordingly, does not include any beginning balances in these funds.
- b. The \$200 million transferred to the General Fund by the Budget Act of 1981 is to be repaid in 1984-85 through an additional year's allocation of tidelands oil revenue to the Lease-Purchase Fund.
- c. Various bills are currently before the Legislature to reappropriate to the General Fund, any tidelands oil revenues unencumbered by contract with private construction contractors. Therefore, the \$147.2 million could increase by an undetermined amount. The budget proposes the appropriation of \$125 million of Proposition 1 bond funds to replace these monies.

School Construction Funds Withheld in 1982-83. As shown in Table 4, in completing action on the 1982 Budget Act, the Legislature withheld \$166.1 million from (1) tidelands oil revenues (\$147.2 million) and (2) school district excess loan repayments (\$18.9 million), which existing law authorizes for school construction and deferred maintenance purposes. In addition, various bills are presently before the Legislature to reappropriate to the General Fund in the current year, any remaining tidelands oil revenues which are unencumbered by contract with private construction contractors--which, if enacted, could further increase the funds withheld from school construction. Chart 3 shows that since 1980-81, approximately 61 percent of the statutorily authorized funding for this program has, (excluding Proposition 1 bond funds), been either withheld or transferred to other funds for alternative uses.

STATE SCHOOL BUILDING AID FUNDS TRANSFERRED

1980-81 through 1982-83

FUNDS AUTHORIZED
BUT NOT APPROPRIATED
(\$566.1 million)^a 60.6%



FUNDS AUTHORIZED
AND APPROPRIATED
(\$368.7 million) 39.4%

a. Includes \$200.0 million of tidelands oil revenues which was transferred to the General Fund in the 1981 Budget Act, which will be "repaid" in 1984-85 through an additional \$200 million allocation of these revenues to the State School Building Lease-Purchase Fund.

This has been done because (1) there was a shortfall of tidelands oil revenues and (2) these monies were needed to replace General Fund revenue shortfalls.

As a result of these actions, in the current year \$100.0 million and up to \$65.0 million were appropriated for new school construction and deferred maintenance respectively, rather than the amount authorized by statute. This is 50 percent of the \$331.1 million that was authorized for these purposes in the current year under existing law prior to passage of Proposition 1.

The exact amount of funding available for new school construction and deferred maintenance in the current year, however, is still undetermined as of this time, because (1) there are bills currently before the Legislature to appropriate to the General Fund any unencumbered funds from the \$100.0 million tidelands oil appropriation and (2) the request by the State Allocation Board to sell \$125.0 million of Proposition 1 bonds in the current year to fund school construction needs has not been complied with by the State Treasurer.

Effects of Funding Reduction. School districts will experience no adverse impact in their deferred maintenance program due to the \$18.9 million reduction in 1982-83 because the state funding actually provided for this purpose was predicated upon an estimate of the actual amount of these funds which school districts could utilize.

Regarding school construction, the State Allocation Board was able to apportion \$104.5 million for school construction for the current fiscal year and approximately \$10 million to fund preliminary and final plans for additional new projects. As previously mentioned, however, bills presently

before the Legislature could reappropriate some of these monies to the General Fund.

Proposition 1 could provide \$125.0 million of bond funds to finance these, or additional, construction projects in the current year, but it is uncertain at this time whether the State Treasurer will sell these bonds. Specifically, the Treasurer has stated that he cannot sell any state general obligation bonds (including Proposition 1 bonds) in the absence of a balanced state budget containing a prudent reserve.

1983-84 Budget. The Governor's Budget proposes that the full amount of "excess" repayments (\$81.3 million) be provided to the State School Deferred Maintenance program to be used for school deferred maintenance.

The budget also proposes that none of the \$200 million in tidelands oil revenues authorized by existing law, be allocated for school building aid in the budget year. This will require authorizing legislation. This shortfall is proposed to be replaced by \$200.0 million of Proposition 1 bond funds which are anticipated to be available in the budget year.

In summary, the budget proposes school capital outlay and deferred maintenance funding of \$281.3 million in 1983-84, which includes \$200.0 million of proposed Proposition 1 bond sale funds and \$81.3 million of "excess repayments" funds for school deferred maintenance.

The Need for School Capital Outlay. Table 5 displays the Governor's Budget estimates that \$225.0 million and \$65.0 million of the funds available in the current year, and \$200.0 million and \$81.3 million of the funds available in the budget year, will be used to fund new facility construction and deferred maintenance, respectively.

Table 5

Resource Allocation for School Facilities
(in thousands)

	<u>Actual 1981-82</u>	<u>Estimated 1982-83</u>	<u>Proposed 1983-84</u>
1. New Facilities			
Tidelands oil revenue--Ch 899/80 (AB 2973)		\$100,000	--
Excess repayments--Ch 282/79 (AB 8)	\$13,990	--	--
Proposition 1 bond funds-- Ch 410/82 (AB 3006)		125,000	\$200,000
General Fund--Ch 288/80 (SB 1426)	<u>60,800</u>	<u>--</u>	<u>--</u>
Subtotal	\$74,790	\$225,000	\$200,000
2. Deferred Maintenance			
Excess repayments--Ch 282/79 (AB 8)	<u>\$51,645</u>	<u>\$65,000</u>	<u>\$81,289</u>
Total Funding	\$126,435	\$290,000	\$281,289

The figures, however, are based upon an assumption that (1) \$125.0 million and \$200.0 million of Proposition 1 bond funds will be available in the current and budget years respectively, and (2) \$100.0 million of the tidelands oil revenues will be available in the current year; all of which will be used to construct new facilities. To the extent that these funds do not materialize--either because the bonds are not sold or due to the proposed reappropriation to the General Fund of some of tidelands oil funding--an equal amount of new facility construction must be deferred for later years.

Table 6 shows the amount of unfunded school capital outlay need estimated by the Department of General Services' Office of Local Assistance (OLA), which would remain at the end of 1983-84 if the Governor's Budget is adopted; and also the aggregate which would remain if the amount of school capital outlay funding authorized by current law is provided in the budget year.

Table 6

Summary of School Facilities Needs
(in thousands)

	1982-83		1983-84				
	Estimated Need	Funds Available	Estimated Need	Funds Available		Deferred	
				Current Law	Governor's Budget	Current Law	Governor's Budget
1. Emergency classroom	\$8,500	\$9,000	\$6,300	\$1,800	\$1,800	\$4,500	\$4,500
2. Construction of new facilities	485,287	237,481	764,736	400,000	200,000	364,736	564,736
3. Rehabilitation of old buildings ^a	--	--	--	--	--	--	--
4. Deferred Maintenance	<u>124,900</u>	<u>65,000</u>	<u>185,053</u>	<u>81,289</u>	<u>81,289</u>	<u>103,764</u>	<u>103,764</u>
Totals	\$618,687	\$311,481	\$956,089	\$483,089	\$283,089 ^b	\$473,000	\$673,000

a. Not included in the table is the amount which OLA estimates is needed to fund the rehabilitation of existing school facilities which, given the questionable assumptions upon which it is based, we do not consider a reliable number for budgetary purposes.

b. Includes \$1.8 million in carryover funds.

The table shows that the estimated total need for school construction in the current year is approximately \$618.7 million, with approximately \$311.5 million of that anticipated to be funded. This need is expected to increase to \$956.1 million in the budget year, of which either \$483.1 million or 283.1 million of it could be funded, depending upon whether current statutory funding for this program is provided or the Governor's Budget is adopted.

While our review indicates that these estimates are reasonable, the estimate for new facility construction assumes that all of the forecasted construction needs will be submitted to the State Allocation Board for funding in either the current or budget year. This forecast, however, is an estimate of the aggregate need for school construction at one point in time, and therefore, some of these projects may not be submitted for state aid until sometime after 1983-84 and would therefore be funded from future resources appropriated for this purpose.

EXPENDITURES FOR EDUCATION--CALIFORNIA COMPARED WITH OTHER STATES

DOES CALIFORNIA SPEND LESS ON K-12 EDUCATION RELATIVE TO OTHER STATES?

The National Education Association (NEA) recently published a document entitled Ranking of the States, 1982. This document presents data for each of the 50 states and the District of Columbia on population, school attendance, faculty, government finance, school revenues, and school expenditures. The statistic in the NEA report which has received the most public attention is the one that ranks California 50th out of 50 states and the District of Columbia in terms of the amount of revenue provided to public schools as a percent of state personal income in 1980.

Interpreting this ranking should be done with caution. On the one hand, the state's low ranking indicates that California is devoting less of its income to education than other states, and thus probably has the ability to provide more revenues to public schools than it is now providing. On the other hand, however, the statistic says nothing about either the adequacy of existing K-12 funding levels or the schools' need for additional revenues. The NEA ranking addresses only the input side of the K-12 equation (that is, funding level); it provides no information on the output of the public schools--the extent to which students are receiving an adequate education. In evaluating the product of public education, spending levels don't tell the whole story.

An Analysis of the NEA Rankings. The NEA indicates that in 1980 public school revenues in California amounted to 3.69 percent of the state's personal income. This places California just ahead of Nevada among the states, and well below the national average of 4.80 percent. This statistic can be interpreted in two different ways. First, it can be taken to mean that public school revenues in California are "low" relative to public school revenues in the rest of the nation. Second, it can be taken to mean that personal income in California is "high", relative to the income of other states. In fact, both interpretations are valid.

The reason that public school revenues in California are low can be explained, in part, by the demographic characteristics of the state. For example, the percentage of persons in the school-age population group--age 5 years to 17--is lower in California than it is in most other states. In fact, according to the U.S. Bureau of Census, California ranked 48th among the states in terms of the percentage of its 1980 population in this age

group. Thus, other things being equal (they are not, of course), we would expect California to be near the bottom of the ranking in terms of K-12 education expenditures as a percentage of state personal income.

The low ranking is also explained, in part, by factors that are not related directly (and may not be related at all) to educational considerations. According to the NEA, California spends relatively less money on school administration and transportation than do other states, when measured on a per-pupil basis. In these expenditure categories, California ranked 45th and 50th, respectively, for 1978-79. In other words, to the extent school districts in California are more efficient than those in other states, or have less of a need for funds because of the state's greater urbanization, they require relatively less of the state's personal income to fund K-12 education services than do other states.

California also enjoys a higher per capita personal income than most other states. For 1980, the NEA ranks California fourth in the nation, with a per capita income of \$10,938. The per capita income for the nation as a whole was \$9,521, meaning that in 1980 California was 15 percent above the median. Again, the age distribution of California's population provides a partial explanation for the state's higher income. In 1980, the state ranked seventh in the proportion of its population in the 17-65 year old age group. With a larger share of its population in the working age group, we would expect California to have a relatively high per capita income.

The fact that California has a higher per capita income than most other states means that it can afford to spend more on education, in absolute terms, than other states. The state might choose to use its

greater wealth in this manner. The fact it is wealthier, however, does not mean that it needs to spend more.

Taken together, these factors explain, in part, why we would expect California to rank relatively low in terms of public school revenue as a percent of personal income. In saying this, however, we do not mean to imply that the level of funding provided for K-12 education in the state is adequate. Rather, the point of this discussion is simply that the state's low ranking, by itself, does not provide a basis for concluding that California needs to spend more for education.

Other Measures of Education Funding. The NEA publication includes various measures of state support for K-12 education. Some are expressed in dollars, while others are on a per pupil or per capita basis. Each provides a different view of education funding in California as compared with funding in other states.

For 1980-81, the NEA reports that California provided \$2,382 per average daily attendance (ADA). This amount was \$365, or 13 percent, below the national average of \$2,747. On this basis, California ranks 37th among the states and the District of Columbia. Because the state provides funds to school districts based upon the district's ADA, many accept this measure as an accurate reflection of the state's financial commitment to education.

In contrast, the NEA ranks California 20th in terms of per capita state and local expenditures for local schools during 1979-80, with Californians providing \$421.14 per capita compared to the national average of \$410.28. (This amount includes funds for capital outlay.)

For 1981-82, the NEA reports that local governments in California provided 19 percent of the revenue going to public elementary and secondary

schools. This is considerably below the national average of 43 percent. As a result, the NEA ranks California local governments 46th in terms of their contribution to public K-12 education. Because California state government, on the other hand, provided 74 percent of the funds for public K-12 education, it ranked 5th among the states in this category.

The NEA rankings illustrate an important point. There are many ways to measure education funding. A single statistic, by itself, is unlikely to provide a reliable basis for assessing the adequacy of specific funding levels, and may give an impression that, in fact, is very misleading.