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# Overview of School District Finance

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LEGISLATIVE ANALYST'S OFFICE

Presented to:

Assembly Committee on Education

Hon. Julia Brownley, Chair





## State Allocates Funds to School Districts in Various Ways

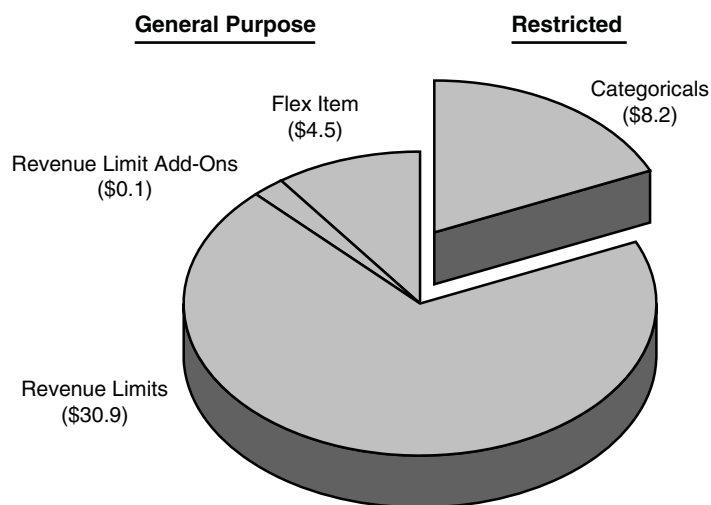


Four primary allocation methods:

- Revenue limits.
- Revenue limit “add ons.”
- Categorical “flex item.”
- Categorical programs.

### Majority of State Education Allocations for General Purpose Use

*(Dollars in Billions)*



Currently, approximately 18 percent of funding comes with strings attached.



## State's Revenue Limit Includes Many Elements

Summary of Revenue Limit Components				
<i>(Dollars in Millions)</i>				
Program	Description	Per-Pupil Amount <sup>a</sup>		
		Lowest	Average	Highest
<b>Base Revenue Limit</b>	Provides an amount per unit of average daily attendance. Funds may be used for any educational purpose.	\$4,978	\$5,351	\$6,397
<b>Revenue Limit Add Ons</b>				
Necessary Small Schools	Subsidizes very small schools, usually in small districts.	34	3,113	8,782
Excess Taxes	Reflects property tax revenues in excess of the amount needed to fund a district's revenue limit.	23	3,060	8,920
Meals for Needy Pupils/ Beginning Teacher Salary	Original add ons: (1) provided funding in lieu of property tax revenues initially used for meals for needy pupils and (2) funded increases to minimum teacher salaries. These two add ons were consolidated into revenue limits by Chapter 374, Statutes of 2009 (AB 851, Brownley).	1	59	457
Unemployment Insurance (UI)	Reimburses UI costs in excess of the district's 1975-76 UI costs.	14	45	773
Public Employees' Retirement System (PERS) Reduction	Reduces district funding based on the difference between the current district contribution rate for PERS employees and a specified base rate.	-450	-25	-7
<sup>a</sup> Reflects average district rate for those districts receiving allocation. Excludes extreme outliers.				



## Many Categorical Programs Now Flexible



The *2008-09 Budget Act* consolidated roughly 40 categorical programs into a single flex item.

- Funding can be used for any educational purpose (effective 2008-09 through 2014-15).
- Dollars allocated based on proportion district received in 2008-09 (or 2007-08 for certain enrollment-driven programs).

### Categorical Programs in the Flex Item

(Dollars in Millions)

Program	2010-11 Amount
Targeted Instructional Improvement Block Grant	\$855
Adult Education	635
ROC/Ps	385
School and Library Improvement Block Grant	370
Summer School Programs	336
Instructional Materials Block Grant	334
Deferred Maintenance	251
Professional Development Block Grant	218
Grade 7-12 Counseling	167
Charter Schools Block Grant	142
Teacher Credentialing Block Grant	90
Arts and Music Block Grant	88
School Safety Block Grant	80
High School Class Size Reduction	79
Pupil Retention Block Grant	77
California High School Exit Exam	58
California School Age Families Education Program	46
Prof. Development Institutes for Math and English	45
Gifted and Talented	44
Community Day School	42
Community Based English Tutoring	40
Physical Education Block Grant	34
Alternative Credentialing	26
Staff Development	26
School Safety Competitive Grant	14
Educational Technology	14
Certificated Staff Mentoring	9
County Offices of Education: Williams	8
Various Programs (under \$5 million statewide)	22
<b>Total</b>	<b>\$4,537</b>



## State Maintains Roughly 20 Categorical Programs



State now funds roughly 20 standalone categorical programs with different:

- Funding formulae.
- Programmatic requirements.

<b>Standalone State-Funded Categorical Programs</b>	
<i>(Dollars In Millions)</i>	
<b>Program</b>	<b>2010-11 Amount</b>
Special Education	\$3,106
Child Development	1,252
Economic Impact Aid <sup>a</sup>	1,011
K-3 Class-Size Reduction	934
After-School Education and Safety	547
Home-to-School Transportation	496
Quality Education Investment Act (QEIA)	402
Child Nutrition	152
Student Assessments	71
Charter School Facility Grants	61
Year Round Schools	31
Partnership Academies	18
Apprentice Programs	16
Foster Youth Programs	15
Adults in Correctional Facilities	15
County Office Oversight	9
K-12 High Speed Network	8
Agricultural Vocational Education	4
<b>Total</b>	<b>\$8,148</b>
<sup>a</sup> Includes charter school allocations.	



## Survey Finds Generally Positive Impact of Cutting Strings Tied to Education Funding

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- ☒ Categorical flexibility having positive impact on local decision making by making it easier to:
  - Develop and balance a budget.
  - Dedicate resources to local priorities.
  - Make personnel decisions.
  - Develop and execute a strategic plan.
  - Fund programs for at-risk students.
- ☒ An increasing number of districts are shifting funds from or eliminating flexed categorical programs.
- ☒ Vast majority of districts seeking increased flexibility.



## Current K-12 Finance System Has Many Problems

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- ☑ In general, system is overly complex, irrational, inequitable, and inefficient.
- ☑ Categorical programs contribute to flaws in state finance system.
  - Little evidence that categorical programs help achieve their intended purpose.
  - Often contain overlapping and unique requirements that make it hard to build cohesive programs for students.
  - Blur lines of accountability for student outcomes.
  - Create a compliance-oriented system.
  - Formulae often antiquated and unrelated to student needs.
- ☑ Despite categorical flexibility, many problems remain.
  - Many categorical programs remain that prevent districts from tailoring spending to local needs.
  - Some categorical programs outside of flex item highly flawed.
  - Little rationale for why some programs are flexible and others are not.
  - Flex item allocations not adjusted for change in district or student needs.



## Recommend Making Lasting Changes to K-12 Finance System

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- ☒ Consolidate virtually all K-12 funding into revenue limits and a few block grants moving forward.
- ☒ Align state operations with new finance system.
  - Minimize California Department of Education's (CDE) focus on compliance monitoring.
  - Refocus CDE mission on data, accountability, and dissemination of best practices.