



CALIFORNIA BUDGET PROJECT

Education Finance:

How California's Budget Crises Affect Schools

1107 9th Street,
Suite 310
Sacramento,
California 95814
(916) 444-0500
www.cbp.org
cbp@cbp.org

JONATHAN KAPLAN
THE CALIFORNIA BUDGET PROJECT
April 2012

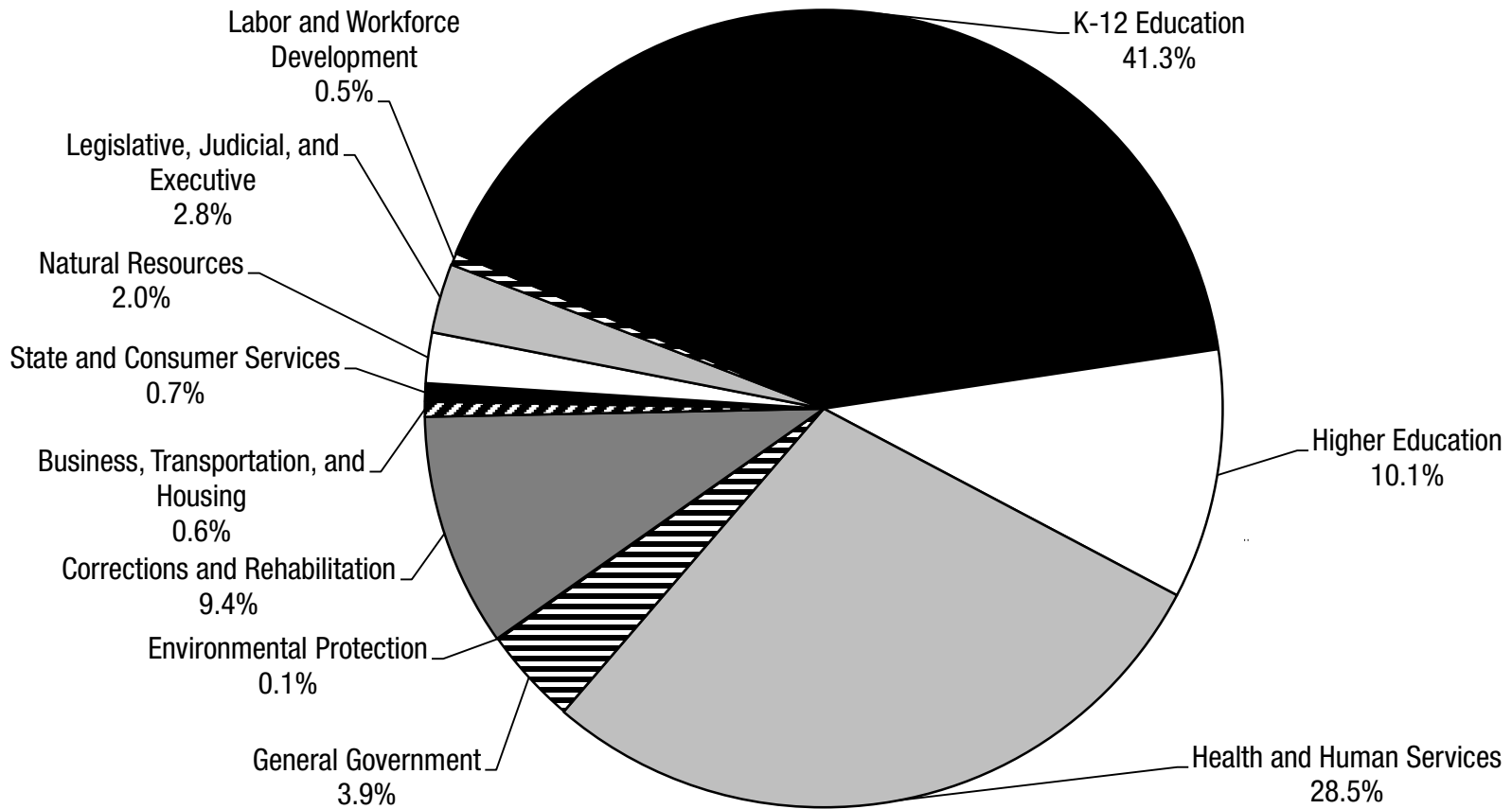
A Quick Quiz

- How much would you say you know about how your state and local governments spend and raise money – a lot, some, very little, or nothing?
- Which of the following represents the most spending in the state budget?
 - Health and human services;
 - Prisons and corrections;
 - K-12 public education; or
 - Higher education.

Californians Still Lack Basic Knowledge About the Budget

- Over half (54 percent) of adults surveyed by the PPIC in January 2012 think they know “some” or “a lot” about how the state and local governments raise and spend money.
- However, only 16 percent of those surveyed correctly identified K-12 education as the largest area of state spending. Nearly half (47 percent) answered “prisons and corrections,” yet prisons account for about 10 cents of every state dollar spent.
- Fewer than one-third (29 percent) of adults surveyed correctly identified the personal income tax as the state’s largest revenue source, and just 7 percent correctly identified both the largest spending area and revenue source.

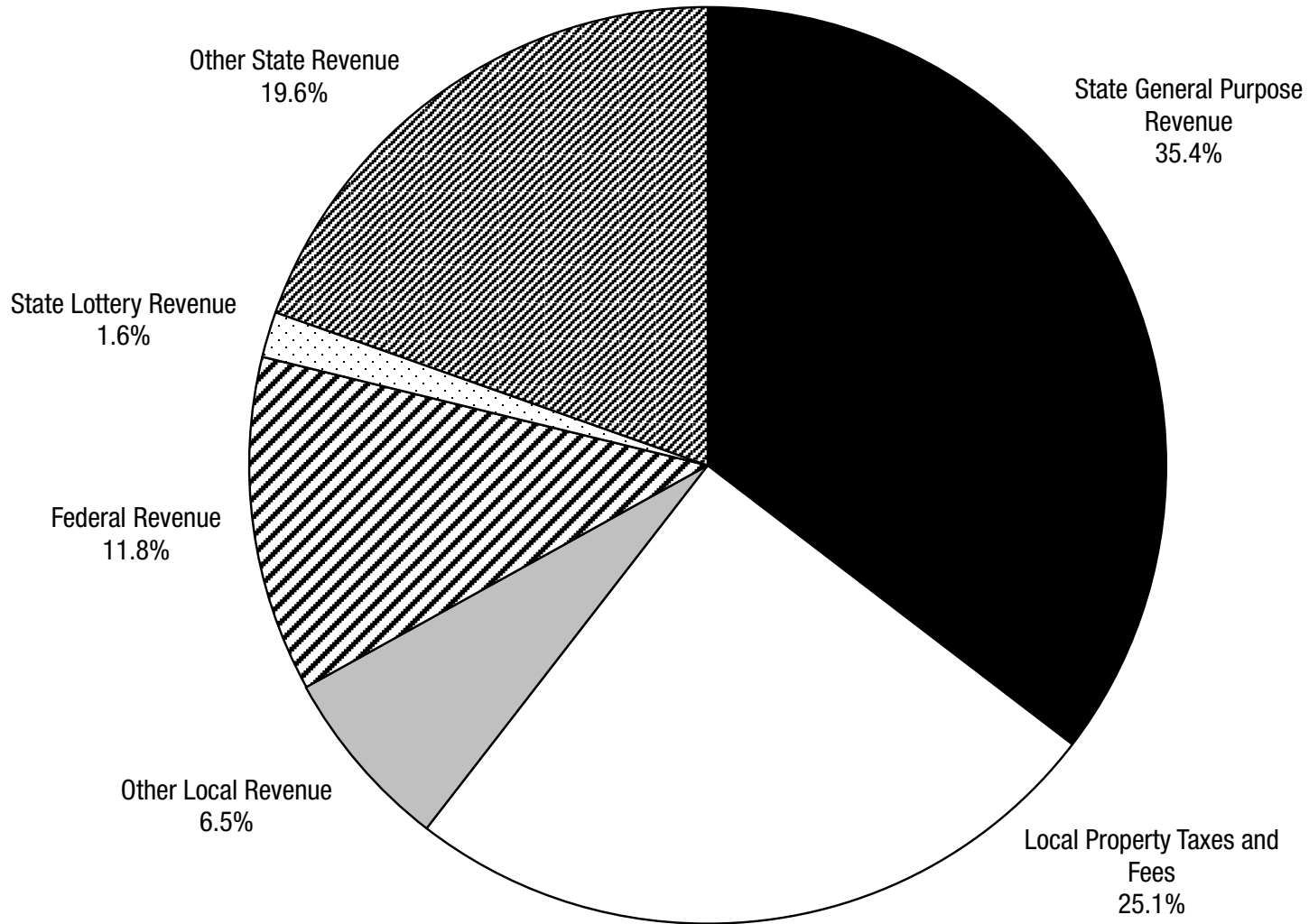
Education Accounts for the Largest Share of Proposed 2012-13 Spending General Fund Spending by Agency



2012-13 Proposed General Fund Expenditures = \$92.6 Billion

Note: Percentages do not sum due to rounding.
Source: Department of Finance

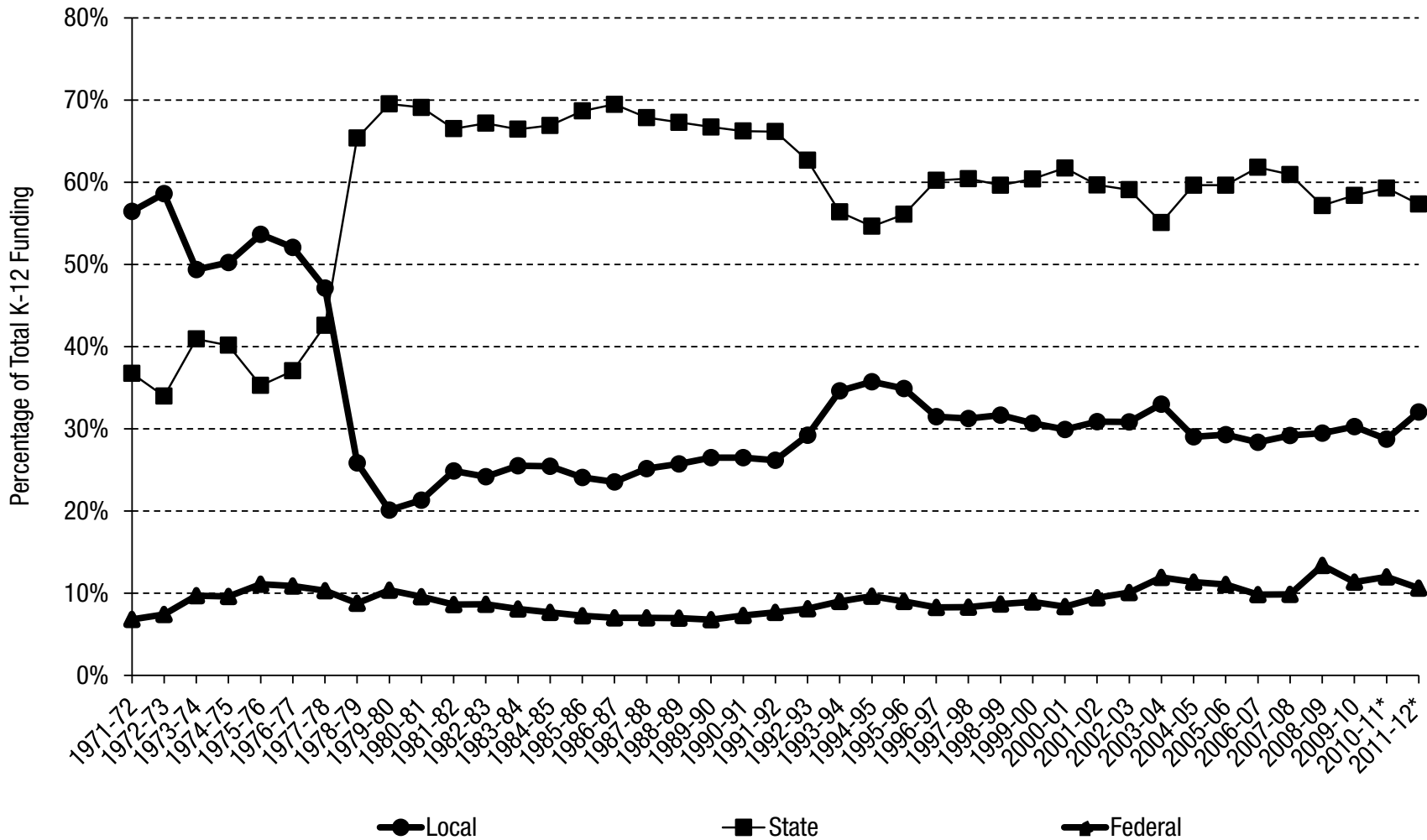
School Districts Received More Than Half of Their Revenues From the State in 2009-10



2009-10 K-12 District Revenues = \$49.2 Billion

Note: Only includes revenues in school districts' general funds.
Source: Education Data Partnership

Since 1978-79, California's K-12 Schools Have Received a Larger Share of Their Funds From the State and a Smaller Share From Local Property Tax Revenues



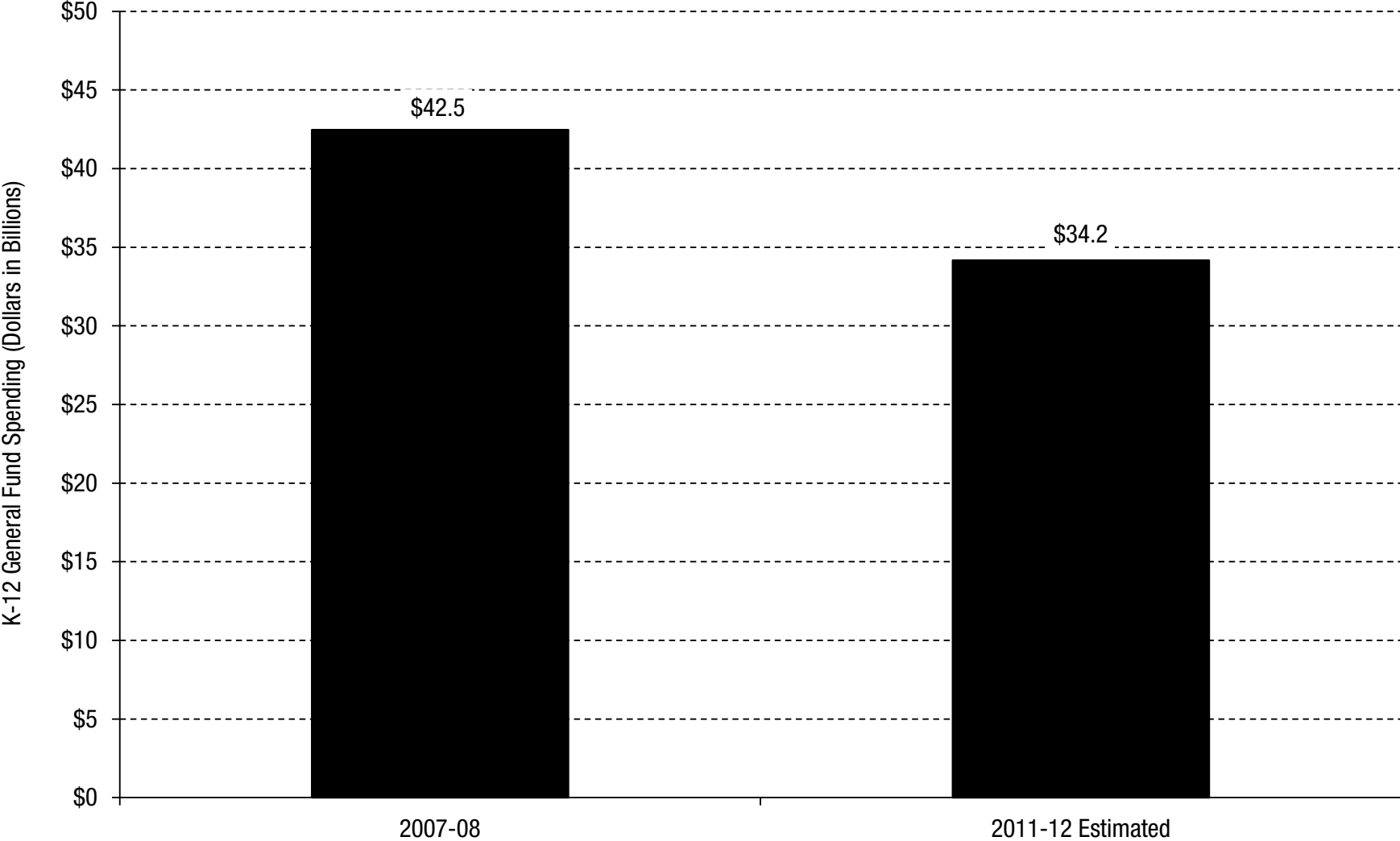
* 2010-11 and 2011-12 estimated.
Source: National Education Association

Why Schools Are Feeling the State Budget Crunch

- California spends the largest share of its General Fund budget on K-12 schools.
- More than half of school revenues come from the state.
- General Fund spending on K-12 schools will be \$8.3 billion less in 2011-12 than in 2007-08 – accounting for approximately half of the \$16.5 billion drop in total General Fund spending during the same period.

General Fund Spending on K-12 Schools Has Decreased by \$8.3 Billion Since 2007-08

Total General Funding Spending Has Dropped by \$16.5 Billion During the Same Period



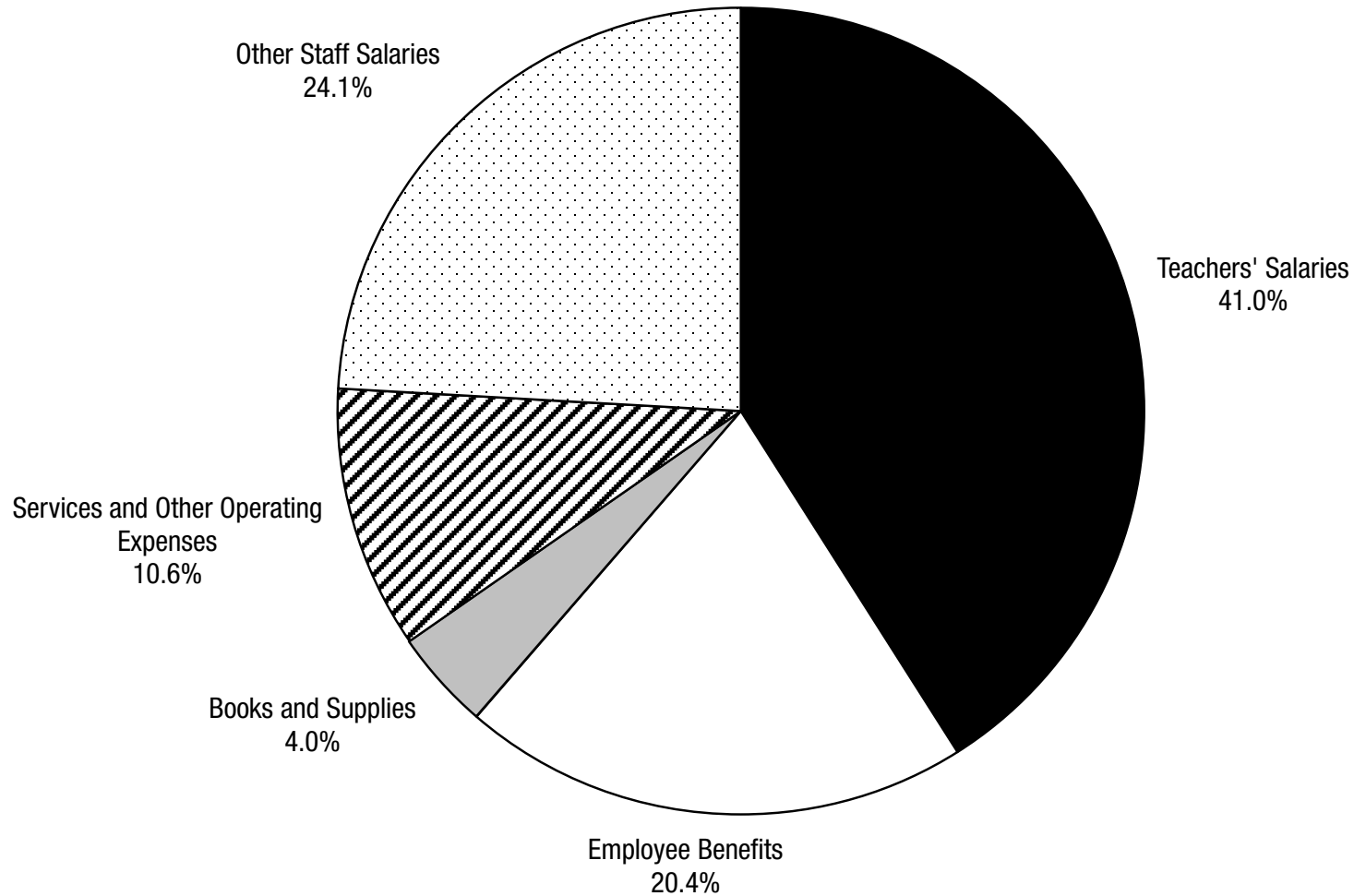
Schools Receive Two Types of Revenues

- Unrestricted dollars can be used for any purpose.
- Restricted dollars are “earmarked” for specific purposes such as special education or professional development.

How Do Schools Spend Their Dollars?

- Schools spend most of their dollars on staff salaries and benefits.

More Than Four-Fifths of Statewide Spending for Schools Supported Salaries and Benefits in 2009-10

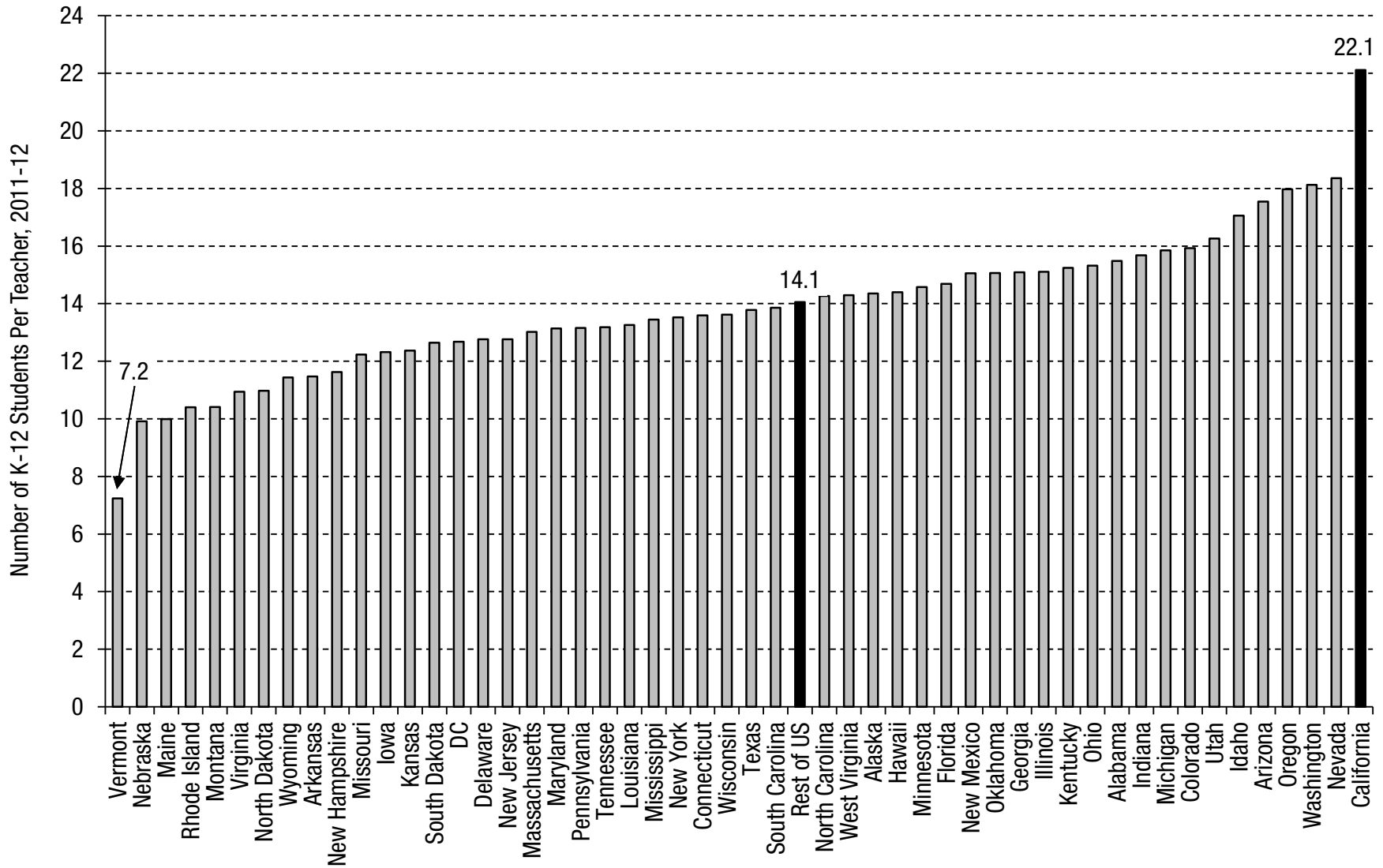


Note: Expenditures from school districts' general funds. Excludes spending for capital projects, other outgo, and transfers of indirect costs. Percentages do not sum to 100 due to rounding.
Source: Education Data Partnership

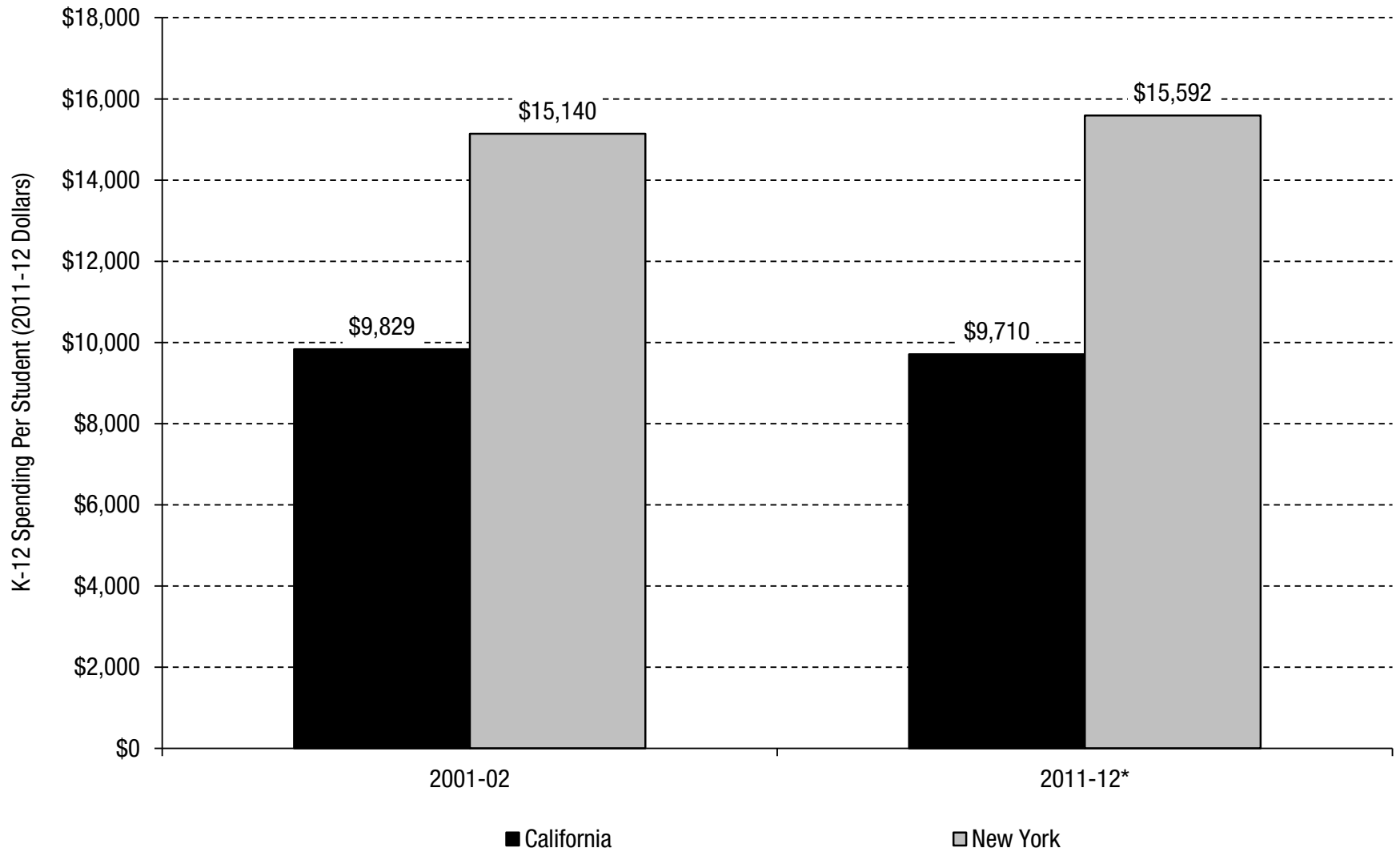
What Has the Budget Crisis Meant for Schools?

- To close repeated budget gaps, the state made deep cuts to schools' general purpose and earmarked dollars.
- Cuts to state education spending led the majority of schools to increase class sizes and/or shorten school years.
- The number of teaching positions statewide dropped by approximately 34,000 (11.1 percent) between 2007-08 and 2010-11.
- California ranks last in the nation with respect to the number of students per teacher.

California Has the Highest Number of K-12 Students Per Teacher



The Gap in Spending Per Student Between California and New York Widened During the Past Decade



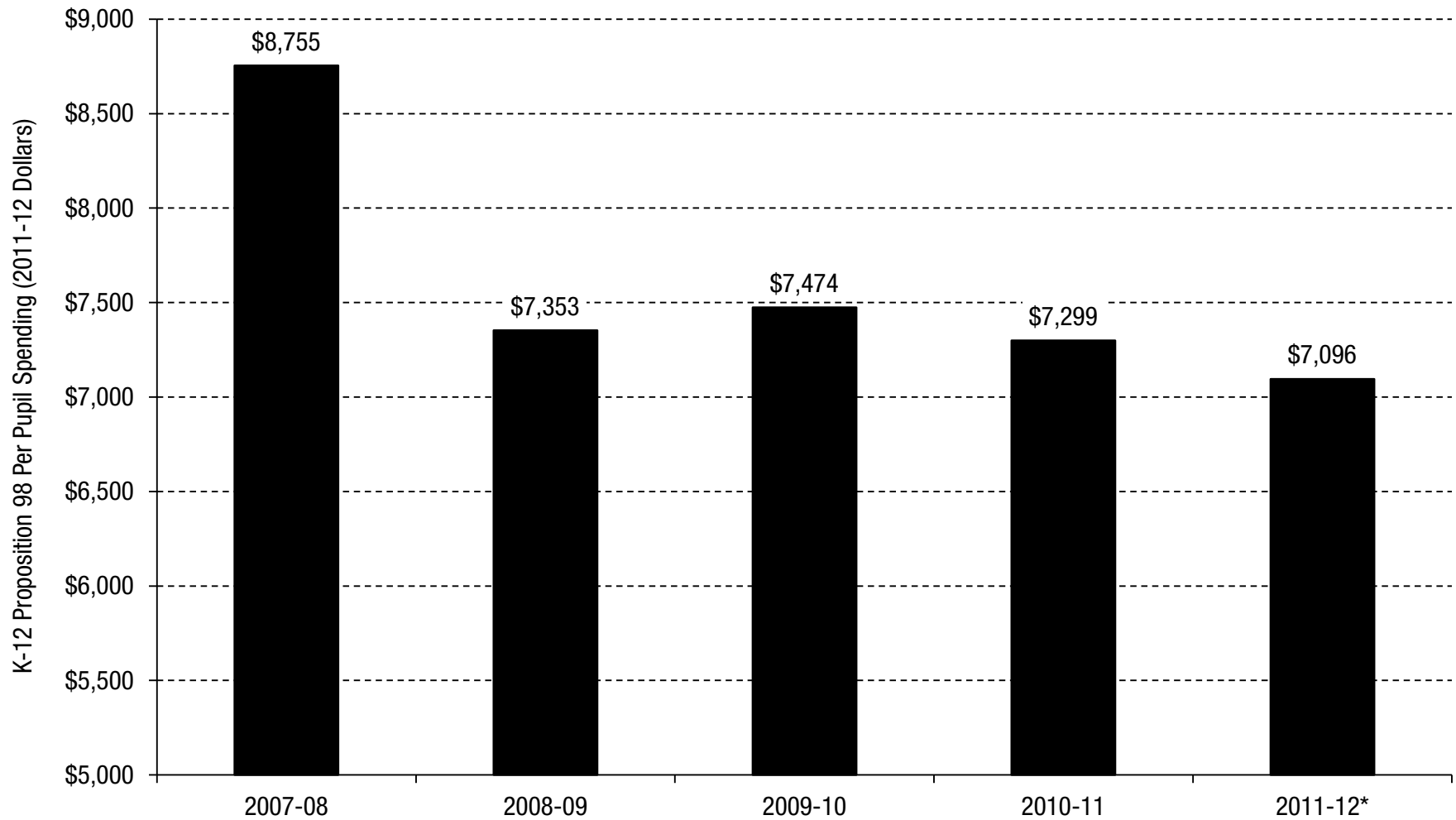
* 2011-12 estimated.

Source: National Education Association

The Governor's Budget Would Stabilize State Support for Schools if Voters Approve His Tax Measure

- State spending per student would stabilize under the Governor's proposed budget.
- State support for schools has dropped by more than \$1,600 per student between 2007-08 and 2011-12, after adjusting for inflation.
- State spending per student in 2012-13 would remain substantially below 2007-08 even if voters approve the Governor's proposed tax measure.

Spending Per Student Has Dropped by More Than \$1,600 Between 2007-08 and 2011-12, After Adjusting for Inflation



* 2011-12 estimated.

Note: Includes funding for the state preschool program and excludes funding for child care.

Source: Legislative Analyst's Office

The Governor Proposes Deep Cuts if Voters Reject His Proposed Tax Measure

- The Governor proposes \$5.4 billion in midyear spending reductions if voters reject his tax initiative. These “trigger cuts” would include:
 - \$4.8 billion from schools and community colleges;
 - \$200 million from the University of California;
 - \$200 million from the California State University; and
 - \$125 million from the courts.

The Governor's Compromise Tax Initiative

- The Governor's proposal asks voters to add three new temporary personal income tax rates on the highest-income Californians – married taxpayers with incomes of \$500,000 and above – and impose a temporary ¼ cent sales tax rate increase.
- The proposed taxes would raise an estimated \$9.0 billion with \$8.3 billion from the tax rates on high-income individuals and \$700 million from the higher sales tax rate in 2012-13.

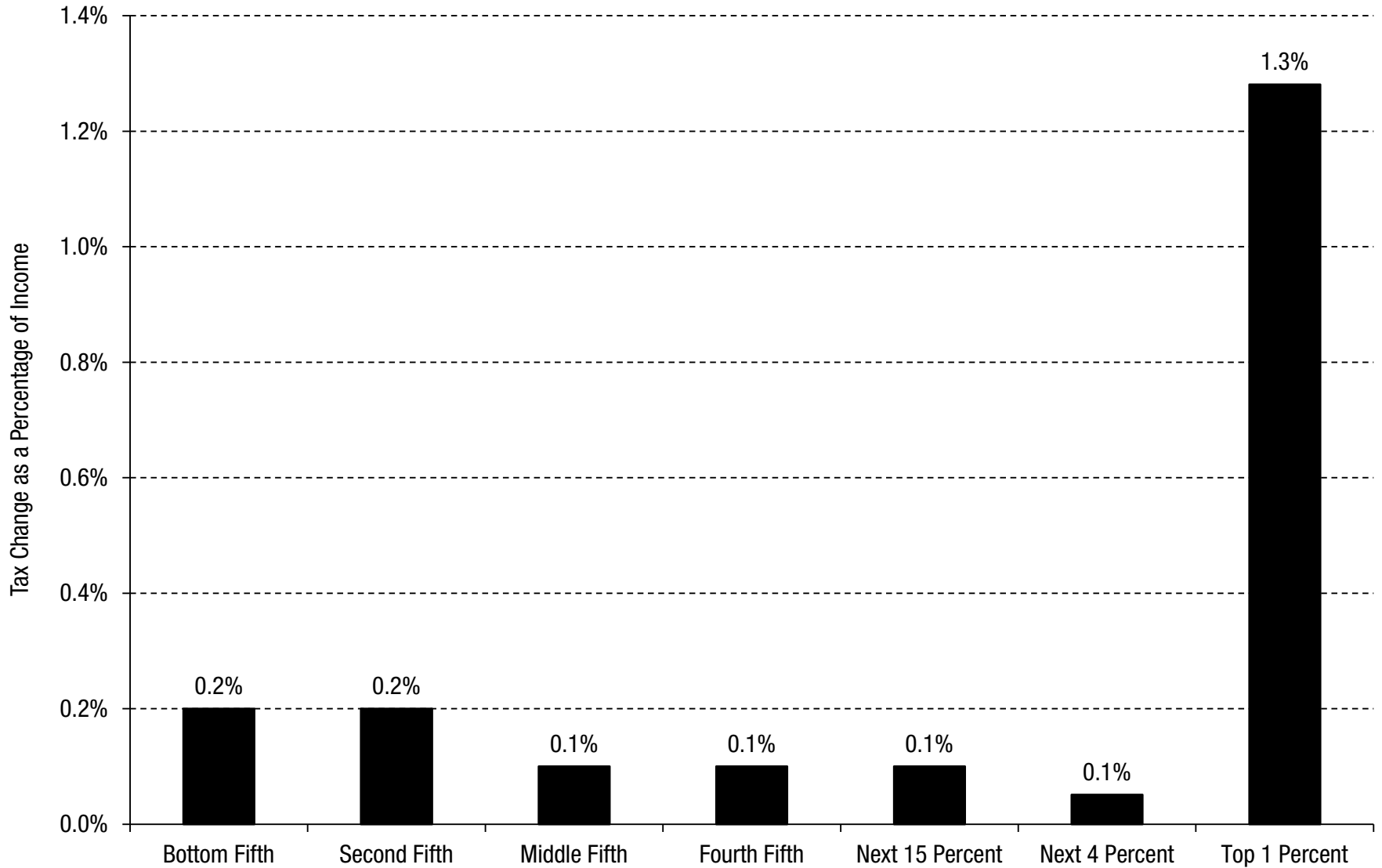
The Munger Proposal

- An initiative sponsored by Molly Munger would increase personal income tax rates for nearly all Californians. The new tax rates would be modestly progressive and be in effect from 2013 through 2024.
- The proposed tax would raise an estimated \$11 billion in 2013-14 and half that amount in 2012-13. The majority of dollars would be allocated to K-12 schools.
- Funds allocated to K-12 education would be in addition to the amount required by Proposition 98 and would not address the “realignment” revenue shift from the state to counties.

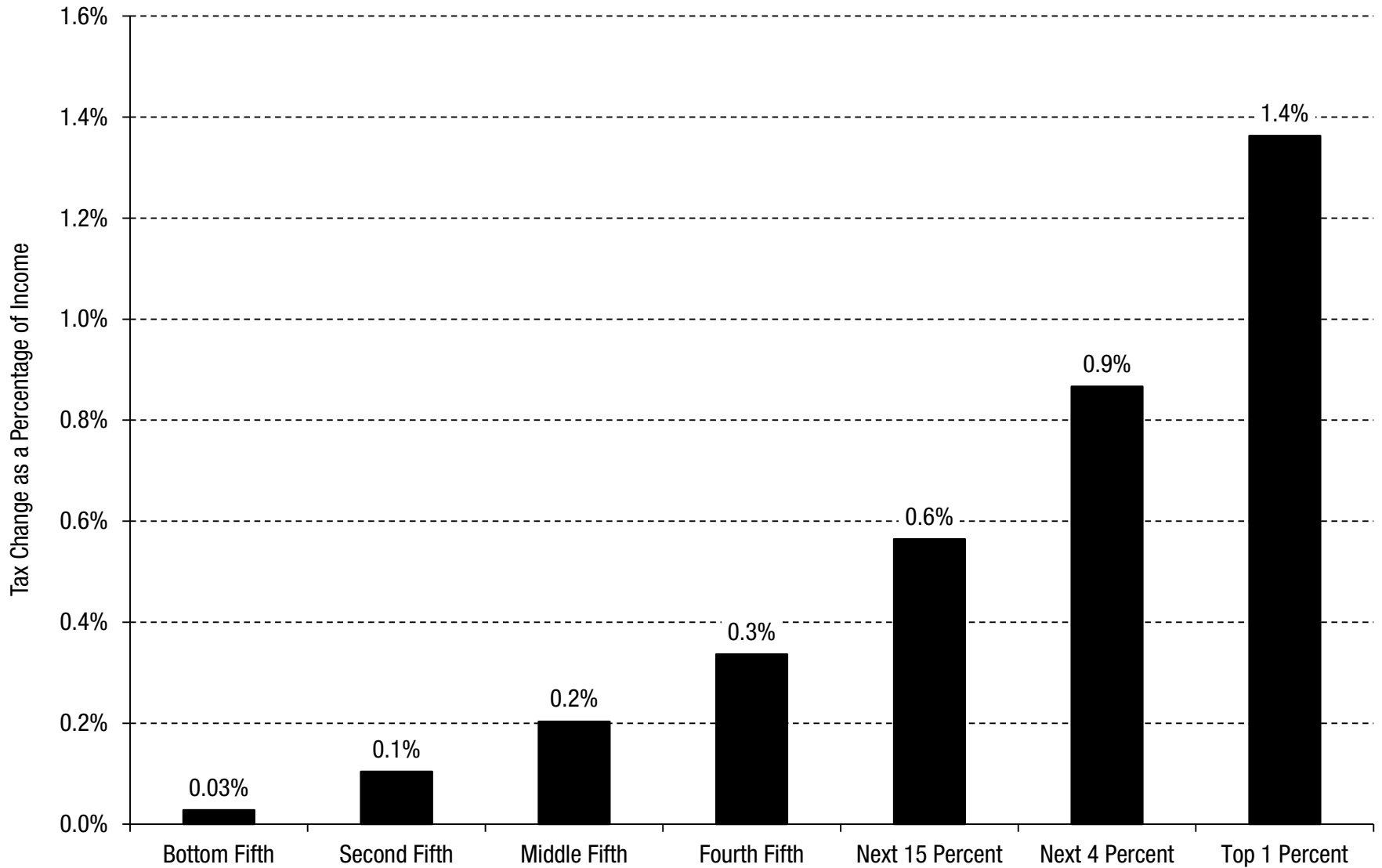
The Munger Proposal (continued)

- Until the end of 2016-17, Ms. Munger’s measure would allocate 30 percent of the revenues raised to pay debt service on General Obligation bonds, 60 percent to K-12 education, and 10 percent to early care and education (ECE). Thereafter, 85 percent of the revenues would go to K-12 education and 15 percent to ECE.
- Payment of debt service costs from the new revenues would generate temporary annual General Fund savings of up to \$3.3 billion. However, the state would be required to increase the Proposition 98 guarantee through five annual “settle up” payments of \$400 million each, reducing General Fund savings.

The Compromise Tax Initiative Would Have the Largest Impact on the Top 1 Percent



The Munger Initiative Would Raise Taxes Across the Income Distribution



California's Schools Need More Resources

- California's schools spend fewer dollars per student and have substantially more students per school staff than schools in other states.
- State budget shortfalls are projected for the near future.
- California schools will likely fall further behind without additional resources.

Resources for Education Finance Information

- California Budget Project
 - www.cbp.org
- EdSource
 - www.edsource.org
- EdData: Education Data Partnership
 - www.ed-data.org
- Legislative Analyst's Office
 - www.lao.ca.gov